

**Factors in the Formulation
of Commercial Policies
in a Developing African Economy :
The Case of Ghana
1955 - 1975**

THESE

présentée à l'Université de Genève
pour l'obtention du grade de docteur ès sciences politiques

par

ISAAC KWEKU BAGYINA ANSAH
(Ghana)

Thèse No 307

GENEVE
Imprimerie Foury - St-Genis (France)
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La Commission mixte, composée des Doyens des Facultés de droit, des lettres, et des sciences économiques et sociales, et du Directeur de l'Institut universitaire de hautes études internationales, sur le préavis de M. Jacques L'HUILLIER, professeur à l'Université et à l'Institut, de M. Gérard CURZON, professeur à l'Institut, et de M. Erlin NYPAN (UNCTAD - Organisation des Nations Unies), Genève, autorise l'impression de la présente thèse sans entendre par là exprimer d'opinion sur les propositions qui y sont énoncées.

Genève, le 3 août 1978.

Pour la Commission mixte :
Jacques FREYMOND
Directeur de l'Institut universitaire

Thèse No 307

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ABBREVIATIONS

A A C B	Association of African Central Banks.
A C P	African, Commonwealth and Pacific Countries.
A D B	African Development Bank.
A W A M	Association of West African Merchants.
B I S D	Basic Instruments and Selected Documents.
B T N	Brussels Tariff Nomenclature.
C C C N	Customs Co-operation Council. Nomenclature.
C F A O	Compagnie Française de l'Afrique Occidentale.
C M E A	Council for Mutual Economic Assistance.
C M B	Cocoa Marketing Board.
C P A	Cocoa Producers' Alliance.
C P E	Centrally Planned Economy.
C P P	Convention People's Party.
E C A	Economic Commission for Africa.
E C O W A S	Economic Community of West African States.
E E C	European Economic Communities.
E F T A	European Free Trade Area.
F A O	Food and Agricultural Organization.
G A T T	General Agreement on Tariffs and Trade.
G I H O C	Ghana Industrial Holding Company.
G N M C	Ghana National Manganese Corporation.
G N T C	Ghana National Trading Corporation.
G S P	Generalized System of Preferences.
I C C O	International Cocoa Organization.
I M F	International Monetary Fund.
L D C	Less Developed Countries.
N L C	National Liberation Council.
N R C	National Redemption Council.
N T B	Non Tariff Barriers.
O A U	Organization of African Unity.
O C A M M	Organization Commune Africaine Malgache et Mauricienne.
O E C D	Organization for Economic Co-operation and Development.
S C O A	Société Commerciale de l'Ouest Africain.
S D R	Special Drawing Rights.
U A C	United African Company (Limited).
U A R	United Arab Republic.
U N C T A D	United Nations Conference on Trade and Development.
U T C	Union Trading Company (Limited).
W A R D A	West African Rice Development Association.

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Chapter I

No leaders in the early stages of the West's development faced anything like the range and complexity of choices which are faced by the new leaders of the underdeveloped world today.¹

Eugene Black,
President of the WORLD BANK (1949 - 1963)

INTRODUCTION

COMMERCIAL POLICY AND ECONOMIC DEVELOPMENT

The commercial policy of a nation may be defined as representing the total sum of actions by the state intended to affect the extent, composition and direction of its imports and exports of goods and services. These actions include not only the familiar direct interventions in international trade, such as tariffs, subsidies, export taxes, quotas, licenses, exchange controls, payments and bilateral agreements, state trading and the like, but also a host of indirect interventions ranging from pricing policies to sanitary regulations, safety standards requirements, packaging controls etc.²

Regulation and taxation of trade is as old as trade itself but the power to regulate and tax trade was initially invested in trade guilds and local authorities and became consolidated in the central authority of the state or nation as the latter slowly consolidated its authority. Thus state intervention or control of trade came to be confirmed with the birth of the nation state system. Since then the motivations behind state intervention in trade, though stated in various forms and with varying degrees of emphasis have scarcely changed. They have been summed up as the state's recognition of international trade as a tool for nation building and by a paternalistic or protective desire to aid and protect the interests of its business community internally and externally³. The former motivation had its first interpretation in

1) Presented at the Fletcher School of Law and Diplomacy - Spring 1960, published as "The Diplomacy of Economic Development". Harvard University Press, Cambridge 1960

2) Benjamin COHEN, "American Foreign Economic Policy". Essays and Comments (Harper and Row 1968), p. 20.

3) Another form of state intervention is that motivated by political considerations. For example the United State's boycott of trade with China and Cuba, the prohibition by some African countries of trade with Rhodesia and South Africa. Another interesting example was when the United States Government in 1974 tried to tie the offer m.f.n. trade treatment to the Soviet Union, to emigration of Soviet Jews.

the mercantilist attitude towards trade adopted by most countries in the seventeenth and eighteenth centuries and most extremely so in Colbertism of seventeenth century France¹. Commercial policies intended to promote the interests of a country's nationals have been grouped into two groups, namely policies intended to control imports and "protect" the domestic market and policies intended to facilitate exports into foreign markets by attempting to offset the difficulties of the foreign market². The former embrace among other measures, tariffs (prohibitive, protective, revenue, preferential, countervailing, antidumping) import surcharges, import licenses, import quotas, quarantine and sanitary regulations, exchange restrictions, buy-at-home movements, marks of origins, regulations on weights and Measures, public contracts requiring use of domestic products, milling and mixing restrictions, confining coastal trade to vessels of one's own nationals, government monopolies of various products, documentation and customs fees; domestic commercial laws which favour domestic traders. Other activities which may have direct or indirect effects analogous to the above are, for example the work of tariff commissions on imports, the work of various other governmental agencies (e.g. a government supply commission) participation in international organizations, commercial treaties and agreements³.

With regard to measures intended to promote and facilitate exports into foreign markets, they include the abolition and exemption of export tariffs, government services, (including consular services and services by foreign missions; trade ministry publications on trade opportunities, credit standing of foreign buyers, tariff changes, commercial laws, packing and shipping problems, travel conditions abroad, etc...) import duty draw-backs; provision of free ports and free zones, improvement of port facilities; activities of export and import financing institutions; export credit guarantees; international marketing agreements, special railroad rates on goods intended for exports; subsidies to production, shipbuilding, shipping, fisheries; bounties and export bonuses; activities of export associations and chambers of commerce, participation in numerous international organisations; commercial treaties of agreements. The nature of measures or activities which will be applicable to or applied by any particular country will of course, depend upon a number of factors; the stage of economic development and the overall economic policies of the country, the availability or lack of it of certain basic economic and administrative infrastructure, the kinds of commodities entering the export and import trade, the role of efficient or inefficient producers, the role of interest groups, action of labour groups, etc...

1) For a study of mercantilism, see "Mercantilism" by HECKSCHER, August, (2 Vols, London 1936, George Allen and Unwin Ltd). For a recent view, see "Mercantilism: Past, Present and Future" H.G. JOHNSON (Journal of World Trade, Vol. 8, No 1, Jan-February 1974).

2) International Trade "Tariff and Commercial Policies" by Asher ISAACS (R.D. Irwin-Chicago 1948), p. 618, 20. See also "The External Relations of Less-Developed Countries" by Hans Bachmann (Praeger Special Studies in International Economics and Development - New-York 1968).

3) Asher Isaacs, op. cit.

Looking at it from another angle commercial policy measures comprise roughly two main different elements, the internal and the external. On the one hand they are subject to or the result of autonomous national policy decisions of a country and as such fall under the full sovereign jurisdiction of government and of the executive authority. On the other hand there is the external element which may be said to represent reactions to the actions of other countries, the result of or issues of bilateral and multilateral negotiations or actions taken within the framework of international organizations, or regional institutions. However even, binding decisions, agreements and treaty obligations entered into with other countries are in many cases submitted to the national executive body for final approval or ratification. The practice followed differs from country to country. One can conclude that there is no single source of commercial policy decisions and measures. They can be taken out of ministerial declarations, edicts, decrees, gazetted notifications and regulations, parliamentary acts, international treaties and agreements, etc. It also often happens that administrative practices become sanctified into policy measures and can only be identified among masses of administrative rules and regulations.

SOME AIMS AND OBJECTIVES OF THE COMMERCIAL POLICIES OF DEVELOPING COUNTRIES

To try to analyse the instruments and techniques of a country's commercial policies presupposes in most cases the existence of well elaborated policy directions or lines of action. On the contrary in most developing countries there is often a characteristic absence of well laid out policies. Moreover, political instability which is endemic in many of these countries and which often implies frequent changes in economic direction is certainly bound to affect commercial policy decisions. The commercial policy of a country forms an integral part of its foreign economic policy and therefore of its economic policy in general ; thus on the one hand one of its ultimate objectives is to help employ national resources in the most efficient manner possible in order to maximize the production of goods and services available for domestic consumption ; in other words promote economic growth and maximize national income. One can therefore evaluate the economic impact of a country's commercial policy only in relation to her general economic policies and performance. Commercial policies can also serve as an instrument for maximizing national power by providing maximum support for the states general foreign policy. Without losing sight completely of this political objective, the economic objectives of commercial policy will be the basic aim of this study and therefore need a little more elaboration.

It has been advanced¹ that by affecting the relative prices of inputs and outputs, the instruments of trade policy employed by

1) Bela BALASSA " Commercial Policy and Less-Developed Countries ". The American Economic Review, May 1971.

developing countries - such as import tariffs and surcharges, export taxes and subsidies, multiple exchange rates, quotas and licenses - influence the allocation of resources including new investments and provide incentives or disincentives to import substituting and export activities. Commercial policy measures are intended to serve as instruments for mobilizing and allocating the foreign exchange resources of the nation and combating balance of payments difficulties, providing budgetary revenue, protecting the country's industries where this is considered necessary, promoting exports, and neutralizing excessive inflationary pressures, etc... Before embarking in the following chapters on the analysis of some of the techniques and instruments of commercial policy, in relation to Ghana, the subject of this study, it may be relevant to discuss somewhat theoretically some of the objectives and general issues which determine and influence the commercial policies of developing countries generally.

SOME TRADE-GROWTH MODELS

As is the case with many issues in the field of economics there is no unanimity among economists as to the role of trade in economic growth. There are many schools of thought whose main ideas may be classified into three main models into which real cases may be fitted only approximately. According to these models, trade can be a leading, a balancing or a lagging sector of the economy¹. In the first model the stimulus to economic growth is external; the growth of trade contributes an incentive and a mechanism for the establishment and expansion of other activities. In the lagging model the stimulus to development is internal and trade is regarded as slowing down growth. In the intermediate case, adjustment of trade keeps pace with domestic transformation as more or less a supporting factor.

The case in support of trade as a leading sector of the economy or in other words as an engine of growth has been well stated by classical, neo-classical and modern schools of economists. It is partly based on the well known arguments built around the static gains from trade derived from the comparative cost theory and which demonstrate the maximization of the world's welfare under conditions of free trade. There are also the arguments based on what Myint² has called the "vent-for-surplus" theory and a dynamic productivity" theory. With special reference to the trade of primary producing developing countries Myint stated that when an underdeveloped country emerges from previous isolation and enters international trade, dormant productive capacity finds use. As a result, without reducing domestic consumption and reallocating resources, the country can bring forth surplus products which can then be exchanged on

1) C.P. KINDLEBERGER, "Foreign Trade and the National Economy" (Yale University Press 1962. p. 195-211).

2) Hla MYINT "The Classical Theory of International Trade and the Under-developed Countries" *Economic Journal*, June 1958, p. 317-337. Also "The Economics of the Developing Countries" (Hutchinson University Library) published by Hutchinson and C. Ltd., 1964.

foreign markets for other goods. Thus trade offers an opportunity for the exchange of goods with less growth potential for goods with growth potential such as the capital goods and materials required for development purposes. The "productivity" theory links development to international trade by interpreting trade as a dynamic force which, by widening the extent of the market and the scope of the division of labour, permits a greater use of machinery, stimulates innovations, overcomes technical indivisibilities, raises the productivity of labour and generally enables the trading country to enjoy increasing returns and economic development.

The various ways in which trade bestows dynamic benefits upon a developing country have been summarized by Haberler¹. (a) Trade provides the material means (capital goods, machinery, raw material and semi-finished materials) indispensable for economic development; (b) trade is the means and vehicle for the dissemination of ideas, for the importation of know-how, skills, managerial talents and entrepreneurship; (c) trade is the vehicle for the international movement of capital, especially from the developed to the developing countries; (d) free international trade is the best anti-monopoly and the best guarantee for the maintenance of a healthy degree of free competition.

Great Britain, and later, countries like Denmark, Sweden, Canada, Australia, New Zealand and Switzerland have often been cited² as historical examples of countries whose economic growth has been mainly export-led sometime with exports consisting of a few major primary or manufactured products. Looking at the present developing world, it is evident that the development of countries, like Ghana, Nigeria, Ivory-Coast, Brazil, to cite a few developing countries, could not have taken off without their participation in the network of international trade. This fact is partly reflected in the high foreign trade ratio of some of these countries³.

In between the ideas of this school of thought and those of the other extreme which denounce the relevance of trade to development is the intermediate position in which trade is considered as a balancing factor in the sense of filling the gap between production and consumption if one ignores changes in stocks. Thus trade is seen only as a supporting sector in the economy; in this sense trade for example becomes a means of escaping the limitation on production arising

1) G. HABERLER "International Trade and Economic Development" (National Bank of Egypt 1959, p. 9).

2) For a study of the preconditions to take off in economic growth, see W.W. ROSTOW, "The Stages of Economic Growth". Cambridge University Press, 1962, Chapters 3 and 4, See also C.P. KINDLEBERGER, op. cit.

3) The foreign trade ratio of a country is measured by the formula $\frac{x+y}{y}$ where x = exports, m = imports and y = gross national product. As Myrdal has pointed out the high trade ratio of most developing countries is due more to low levels of production and income than to the high level of foreign trade and is one of the indications of their underdeveloped status ("An International Economy: Problems and Prospects" - G. MYRDAL, New York 1956, p. 225-226).

from the narrow domestic markets of some developing countries. There is also the case where production is oriented towards the internal market, with exports being promoted to acquire the foreign exchange necessary for the importation of raw materials, fuel and capital equipment. Japan has been cited as an example of a country where exports did not form a leading sector in the early stages of economic growth, but provided a close support.

The third model has had such stout exponents like Raul Prebisch¹, Singer² and Myrdal, who question the relevance of trade to development; in fact they maintain that international trade has operated to the detriment of the poor countries' development and here their emphasis has been on the detrimental effects of the free play of international market forces. Myrdal³ has argued that "market forces will tend cumulatively to accentuate international inequality" and that "a quite normal result of unhampered trade between two countries of which one is industrial and the other underdeveloped, is the initiation of cumulative process towards the impoverishment and stagnation of the latter". The main supporting arguments on this position have been that development has been retarded by (a) the unfavourable effect of international factor movements, (b) international operation of the demonstration effect and (c) a secular deterioration in the terms of trade.

The ideas of Prebisch and others such as Myrdal and Singer have been effectively countered both on statistical and analytical grounds but there is no doubt that these ideas have greatly influenced economic policies in some developing countries. It was a logical conclusion of the argument of the Prebisch school that growth in the developing countries must proceed through domestic industrialization based on import substitution, since there is little possibility in relying on export-led growth, especially export of primary products. The post-war adoption of import substitution as a strategy for industrialization especially in Latin America and India may have been influenced by these ideas.

As has already been pointed, the high foreign trade ratio in many developing countries partly reflects the importance of trade in the economy of these countries. The question has then been posed, why trade is currently not as effective an engine of growth as it has been

1) The ideas of Prebisch on the issue of trade and development were first developed when he was the Executive Secretary of the United Nations Economic Commission for Latin America and are to be found in such papers as "The Economic Development of Latin America and its Principal Problems" - UN, New York 1950; and "Commercial Policy in the Underdeveloped Countries" in *American Economic Review* - Paper and Proceedings, Vol. 49, p. 251-273 (1959).

2) For the ideas of Singer, see "The Terms of Trade and Economic Development", *Review of Economics and Statistics*, Vol. 40, Suppl. p. 85-88 (1958).

3) For Myrdal's ideas on these issues, see his "Economic Theory and Under-developed Regions" - published by G. Duckworth 1957, Chap. 3 and 5. Also "An International Economy: Problems and Prospects" New York 1956, Chap. 13.

in the past. As has been emphasised by many an economist, foreign trade may operate as an engine of growth transmission provided there are latent indigenous forces of development that can be released through trade ; for the gains from trade can facilitate development, but they cannot be a substitute for the developmental forces that must necessarily be created within the domestic economy. These " so called " forces of development comprises not only the basic economic determinants of development such as entrepreneurship, technical progress, a high saving ratio and capital accumulation, but also non-economic social and political forces. Some of the social bottlenecks to development are well known ; a social structure that keeps the response to economic forces within narrow channels and itself withstands transformation by these forces ; a land tenure system which prevents a rational optimum exploitation of land ; an education system not adapted to the economic exigencies of the society ; a family system whose demands on entrepreneurs in terms of financial support and social obligations are a major impediments to the effective expansion and management of business¹. To these must be added the political instability often to be discerned in these newly evolving societies, and often the lack of efficient and honest administrative infrastructure capable of directing the energies of the people in the right direction or carrying out developmental programmes.

THE TRADE

GROWTH MODEL AND SOME IMPLICATIONS FOR POLICY

A trade-growth model for a developing country has its particular implications for policy which need some detailed discussion. Where trade has been accepted as a leading sector in the economy, it is evident from the above discussion that the maximization of foreign exchange earnings becomes a cardinal objective of commercial policy. The more foreign exchange is felt to be a bottleneck the more important it is to foster in every possible way the limited range of activities from which foreign exchange can be derived. But then one of the main features of the external sectors of many developing countries is the high dependence on the exports of a few primary commodities whose export earnings are subject to wide fluctuations from month to month and year to year, the reasons for which are not difficult to diagnose. Generally, low demand elasticities for many of these products ; low supply elasticities in primary production everywhere which tends to be still lower in developing countries because of the general rigidity in their economies, instability of supply on account of weather is a characteristic of agriculture, especially when production techniques are inadequate ; primary commodities are also more influenced by speculative buying and selling and changes in inventories often tend to aggravate instead of dampening fluctuations in demand.

1) For the influence of the family system on business in developing countries, see " African Traders and Economic Development in Ghana " - by P.C. GARLICK - Oxford University Press 1971, esp. Chapter VII. See also P. BAUER - " West African Trade ".

Specializing on a narrow production front also renders a country's export economy vulnerable especially when forced to meet competition from substitutes, both primary and synthetic. The problem of scarcity of foreign exchange as a bottleneck to economic growth in developing countries raises the wider problem of the balance of payments disequilibrium.

The balance of payment problem

Over ambitious development plans which many developing countries impose on themselves are often a major cause of the chronic balance of payments deficits characteristic of many of these countries. Economic development usually involves the acceleration of investment and any gap between the expanding level of investment and domestic saving, unless filled by foreign investment or foreign aid, results in a balance of payments deficit. For as investment is increased, imports of capital goods are directly enhanced ; there is a greater rise in imports of raw materials, fertilizers, fuel and other commodities to keep an expending domestic economy supplied. Another major cause often more important than the above is the high consumer imports of many developing countries partly occasioned by a rise in incomes. It is in this respect not far fetched to state that domestic inflationary pressures are partly at the root of the balance of payments problems of many developing countries. As domestic incomes rise and domestic products for consumption are not yet sufficiently available additional pressures are usually brought to bear on consumer imports of both manufactured and agricultural products. High imports of agricultural food items is also characteristic of the trade of many developing countries. In many of these countries, food imports take as much as between 10 - 15 per cent of total imports, a result of the neglect of agricultural development.

On the other side of the balance of payment scale is an export economy which is either stagnant or not growing fast enough to cope with the growth of imports. The insufficiency in the growth of export earnings can be traced to many causes ; dependence on the exports of a few primary products often agricultural whose production fluctuates for climatic and social reasons, fall in prices, diminishing demand for product due to economic recession in importing countries, competition from substitutes and synthetics, and changes in the techniques of production, etc... Where minerals are concerned a cause of a long term downwards trend in production might be the exhaustion of ores, or a fall in its mineral content, etc...

The magnitude and persistence of payments deficit accompanying development naturally varies from country to country and depends on many factors ; the rate of investment, the composition of natural resources and especially of exports ; the rate of growth of population, the level and pattern of monetary creation, the rate of increase of consumption, the rapidity with which consumable products result from new investments, the degree of sufficiency of the economy in

foodstuffs and fuels and the extent to which new local industries can use domestic material¹.

An element of the balance of payments problem of developing countries which is becoming more and more prominent and which deserves special discussion is the question of debt servicing, in the form of the payments of the principal and interest on loans, medium and short term loans contracted by these countries. It is probably not the size of the debt service payments that matters nor even the rate at which it is growing, but the proportion it absorbs of the foreign exchange available to the country and its implication for development. The nature and acuteness of the problem differs from country to country. It is not a serious problem where debt service payments grows at the same rate as the growth in export earnings, so that the ratio of the former to the latter remains virtually the same. In many developing countries the debt service payments have risen appreciably faster than export earnings so that as a result the debt service ratio has risen rapidly. In Sri Lanka for example the increase has been from less than 1 per cent of foreign exchange earnings in 1960 to 20,3 per cent in 1975 while in India the ratio has risen from 5 per cent to 16,3 per cent in the same period². Where the ratio is high the country becomes vulnerable to a sudden decline in export earnings or in new capital inflow.

To a very large extent the origin of the debt servicing crisis in many developing countries can be blamed on the bad management of the economy as a whole. The case has been succinctly put by Sir Dennis Rickett³ : " In some cases, the dominant characteristic has been the accumulation of short-term debt in an increasingly desperate attempt to forestall the consequences of balance of payments disequilibrium, without measures to correct the fundamental problem such as excessive levels of protection, or over-valued currency. " He continues : " In other cases such as Peru, Ghana and Indonesia, it seems more appropriate to speak of a development crisis. Over ambitious long-range investment programmes were launched on a grandiose scale, financed by short-term credits taken up without actual control, and executed with inefficiency and sometimes corruption. Import credit guarantees and insurance facilities open to suppliers in industrialized countries made it possible for them to act without the prudence which the evident mismanagement should otherwise have prompted. In the end, a major political crisis puts an end to the adventure, leaving the country saddled with a huge and unproductive debt " ⁴.

1) Finance and Development - Vol. 4 No 2, p. 113 (IMF. June 1967). Trade and Exchange Policies for Economic Development. Margaret G. de VRIES.

2) Address given by Sir Dennis Rickett, Vice President of the World Bank to the Schweizerisches Institut für Auslandsforschung at the University of Zurich. May 10th 1971 (See Finance and Development Vol. 3, 1971 by I.M.F. p. 58).

3) See " World Debt Tables ", Vol. 1 - World Bank Document EC. 167/75.

4) Sir Dennis RICKETT, op. cit., p. 59.

“ Only good economic policies will help in averting debt crises, for no plausible level of concessional aid from abroad will be successful in averting future debt crises if recipients mobilize their own resources ineffectively, invest them inefficiently or maintain an exchange rate which discourages export earnings. Only a dynamic and healthy growth in export earnings will help in avoiding the temptation to place excessive reliance on short-and-medium-term suppliers credits. However, where it has been decided to use foreign loans, a policy of good debt management is absolutely necessary. In a narrow sense this implies that external debt should be assumed only where there is a reasonable presumption that the borrowed capital will generate production which can directly or indirectly be transformed into additional foreign exchange resources over a period appropriate to the service of the debt¹.

In the final analysis unless the exports of the developing countries rise over the long run at a rate sufficient to support an adequate growth rate, pressures on their balance of payments are likely to persist. Efforts to increase a country's rate of growth beyond what can be sustained by its foreign receipts are likely to result in wasteful policies of stop and go and therefore to have the opposite result to that intended. Fundamental to a better understanding of the debt problem of developing countries, is the acknowledgement of its developmental aspects, namely the inability of developing countries to produce and export enough to finance their growing developments needs ; the insufficiency of the flow of international development assistance and the problems that arise in the use of international capital markets as a source of development finance. The adoption of strict commercial criteria by creditor countries in such circumstances can only serve to aggravate the problems.

Some other issues in export-led growth²

Coming back to the question of policy issues facing an export-led developing economy a few of these come to mind but whatever trade policies are proposed it is necessary that the appropriate, social, educational and political conditions exist to enable the growth inducing forces of trade to function effectively. Some of these policy issues are : (a) the need to increase the competitiveness of exports on the world export markets, (b) the need to diversify the export structure away from a stagnant to a dynamic commodity pattern, (c) the need to have a liberal access to the markets of developed countries and (d) the need to develop new markets. One policy issue with which developing countries have been obsessed for decades and which deserves a special mention is commodity price stabilization.

1) Ibidem.

2) For a discussion of these export policy issues, see “ Exports and Economic Growth of Developing Countries ”. A. MAIZELS assisted by L.F. CAMPBELL-BOROSS and P.B.W. RAYMENT - Cambridge University Press 1968, p. 269-273.

Commodity price stabilization

Stabilization of the prices of their export commodities on the international market is another major problem which preoccupies developing countries¹ especially at times of falling prices. It is a problem which has been variously interpreted at different periods, as a means of redressing the deteriorating terms of trade of primary commodities in relation to manufactures, as a form of aid, and more currently as an instrument for the transfer of resources from the rich to the poor. Developing countries often emphasise that the core of the problem resides essentially in the disruptive effect² on their planning and general economic life, of extreme fluctuations in the prices of their primary commodities. However it may be emphasised that developing countries have hitherto been more insistent on commodity price stabilization during periods of falling prices than during periods of a price boom, which leads to the accusation that the objective of developing countries is to force a rise in prices rather than stabilize them.

The debate on the necessity, objectives and modalities of commodity price stabilization agreements is a long one and it is not the

1) The stabilization of commodity prices and commodity export earnings of developing countries constitute one of the elements of the programme for a new international economic order being demanded by developing countries. Other elements include the reform of the international monetary system, facilities for easing the debt problems of developing countries, greater access to international capital markets, greater preferential access to markets of developed countries for products of LDC ; and industrial co-operation between developed and developing countries including easier transfer of technology from the former to the latter, etc.

2) The claim that short term export instability is basically inimical to the economy of developing countries has been challenged by a number of economists. In a study by Alasdair MacBean it was concluded that there was no quantitative evidence that countries with greater export fluctuations were handicapped in their development by comparison with countries where exports fluctuated less, so that probably the importance of short-term export instability to underdeveloped countries had been exaggerated. A subsequent study in the series of Princeton University Working Papers in International Economics had concluded that in general, its findings did not contradict MacBean and did not show any perverse connexion between the rate of economic development and the degree of export instability. Sir Sydney Caine has also concluded that price fluctuations did not have an adverse effect on investments. While some of these assertion might be justified it is my personal view that much would depend upon the ability of individual developing countries to absorb or offset the effects of such fluctuations, and on the severity of such fluctuations and the basic strength of the economies affected. In developing countries which either lack the necessary policy tools or the economic strength to absorb such instability or fail to take the necessary measures, evidence shows that short term fluctuations can have serious dislocating effects on planning and development. In the long run what appears to affect growth in many developing countries is not the fluctuations in export earnings as such but the rate of growth of such earnings. Countries with rapid growth but high instability of export earnings have still tended to increase their GNP faster than countries with stable but slowly growing export earnings.

See Alasdair MacBean, "Export Instability and Economic Development" Cambridge : Harvard University Press ; London, G. Allen & Unwin, 1966 (Glasgow University Department of Economic and Social Research, Social and Economic Studies, No 9).

Also Sir Sydney Caine's paper "Stabilizing Commodity Prices" in "Foreign Affairs", October 1958, p. 136.

intention here to enter into it in all its details¹. Actions aimed at price stabilizations can be taken at both national and international levels, depending on the circumstances and the nature of the commodity. Various stabilization techniques are possible, buffer stocks, quota systems, long term contracts, co-ordinated national stockpiling schemes and measures by statutory marketing boards. Other international actions which can be taken in the monetary field and aimed more at the stabilization of export earnings may take the form of compensatory payments for temporary export short falls or some form of counter cyclical lending while allowing international market forces to have their full play.

While hitherto the problem has been approached on product by product basis, there is an attempt at the time of writing to consider the problem from a global angle. This new approach which is being nurtured at the UNCTAD in the form of an integrated commodity programme, covers a number of major commodities, both agricultural and mineral and consists of five major mutually supporting elements, namely a series of international stocks, a common fund for financing them, multilateral commitment in trade, compensatory financing and expansion of processing in developing countries. The arguments which have been marshalled against the integrated programme cover in part the traditional arguments² against commodity agreements such as problems of financing, problems of working out satisfactory mechanisms, or more fundamental issues such as misallocation of resources, and the vitiation of market forces etc..., new ones such as the problems involved in price indexation have been evoked. Probably the final acid test of the relevance or success of commodity price stabilization should be the extent to which the stabilization of prices improves the long-term position of the commodity, in other words if more stable prices add to long-term demand or if they reduce long-term instability of supply.

1) See chapters 5 and 6 for some of the practical aspects of commodity price stabilization.

2) Prof. P.T. Bauer who is a strong antagonist of commodity agreements has marshalled a number of arguments some of which are summarized herewith. (a) The agreements affect mostly products which enter into articles of mass consumption mainly in the industrialized countries. But many poor countries also import the controlled commodities or the manufacture which incorporate them. (b) Commodity agreements normally require formal or informal quota arrangements both between producing countries and also within each country. They thereby raise costs of production by protecting higher costs producers and impeding the expansion of lower cost producers. They often also inflate costs by enforced undercapacity working. (c) Commodity agreements often impose a heavy burden on potential producers who have to be excluded to ensure effective restriction of supply. Thus very poor countries may be barred from producing or expanding the output of cash import crops, as a result of pressure from the agreement countries, exercised directly or at one remove through international organizations. (d) The beneficiaries of commodity agreements are by no means particularly poor. Rich countries are net exporters of major primary products (e.g. wheat, wool, butter, some oils and fats and meat products). Within the Third World, countries exporting primary products are usually among the most prosperous. And within the exporting countries the primary beneficiaries of these arguments tend to be relatively prosperous producers. (e) The allocation of valuable export rights and quotas sets up political tension both internationally and within individual exporting countries. (f) Commodity agreements confuse stabilization in the sense of reducing fluctuations in prices and incomes with monopolistic raising of prices, objectives which are altogether different and should be kept distinct. (Daily Telegraph May 31 1975).

IMPORT SUBSTITUTION AS A TRADE AND INDUSTRIAL POLICY

Having discussed at some length some of the major policy issues facing an export-led developing economy, we may turn to the Prebisch - Myrdal - Singer school¹ which advocates more or less a policy of economic growth based on an expansion of the domestic markets and deliberate industrialization through import substitution. Some form of import substitution has come to be generally accepted as important in the early stages of industrialization in many developing countries, and as such demands some detailed discussion. It may be even worthwhile to explain some of the factors behind the present craze for industrialization in developing countries often at the cost of heavy protection of domestic industries and massive misallocation of resources.

The craze for industrialization in developing countries is partly explained by the desire to break away from the constraints of depending solely on the export of primary products for economic growth. Here it may however be emphasised that some countries with some of the highest standards of living like New-Zealand and Denmark have until recently been basically agricultural exporting few food items. It has been argued that manufacturing industry represents in a sense a higher stage of production and that this is exemplified by the fact that the development of manufacturing industries in developed countries has been concomitant with their spectacular economic progress. It has also been claimed that productivity of labour in industry tends to be greater than in the traditional agricultural pursuits, thus industrialization and the growth of that part of the working population that is engaged in industry is therefore a means of raising national income. Moreover, as Galbraith² has claimed, a purely agricultural country, is likely to be unprogressive even in its agriculture while industrialization creates a technology which can be applied to agriculture but not vice versa. A more current argument is that industrialization helps to alleviate the employment problems created by rapidly growing populations and urbanization : however, the process of industrialization has in itself the seed of rapid urbanization seen in many developing countries. One must also not overlook the strong ideological motivation for industrializations in certain societies. The development of an industrialized society is central to Marxism whose historical dialectism makes such a society a necessary stage in the evolution towards communism³.

In most developing countries industrialization has been envisaged as oriented predominantly towards the domestic market and the po-

1) See footnote on page 6.

2) J.K. GALBRAITH " Conditions for Economic Change in Underdeveloped Countries ". *Journal of Farm Economics*, Nov. 1951, p. 695 ff.

3) Communist China is the first to break away from the ideological straight jacket and develop communism on an essentially agrarian instead of industrial base.

licies concerning the structure of production, the choice of technique, and industrial organization, income distribution, resource allocation are formulated from that point of view. A strategy for such domestic market oriented industrialization is import substitution. It may be described as the most obvious first approach to industrializations in view of the difficulties involved in orienting infant industries towards highly competitive exports markets. A major justification, however, is the claim that it saves foreign exchange. Moreover as Chenery¹ has pointed out, in modern developing countries, the leading sectors of economies, those which provide the impetus to growth, are likely to be the industries in which import substitution becomes profitable as markets expand and capital and skills are acquired. A strategy of import substitution may consist of various stages². A first or the easy stage, is the takeover of an existing market for consumption goods from foreign suppliers and the following stage may consist of extending production backward to intermediate goods, capital goods and raw materials and eventually breaking into the export market of manufactures.

The first stage which consists in the substitution of home-produced consumer goods for imported consumer goods is usually characterized by rapid growth in industrial output and employment, accompanied in certain cases by a significant decline in the share of imports in total demand for manufactures. However, at this stage an observable paradox often sets in; many instances, many of the industries set up have a high import co-efficient since they depend upon the importation of machinery, technicians and frequently a large part of their raw materials. Moreover many of them are limited to assembling, packaging and finishing. The goods are often of doubtful quality, produced in factories of un-economic size and beset with bottlenecks such as lack of skilled manpower and managerial know-how. Prices are high and the factories have to be protected by quantitative trade controls or high tariffs that practically shut out all competition from imports. As industrial production tends to become more and more dependent on imports a growing pressure on foreign exchange resources becomes a regular feature at this stage. The other bottleneck which contrives to slow down industrial growth is the limitation of size and growth of the domestic market. Some of the reasons why domestic markets in developing countries tend to expand slowly are, on the one hand, the point that domestic income and demand increase less than is warranted by the volume of investment at any given time because a large fraction of it must consist of imports, and on the other hand, the introduction of modern techniques, which are the essence of industrial development and which are embodied in plant and equipment designed for the much larger markets of the ad-

1) See H.B. CHENERY, " Patterns of Industrial Growth ". American Economic Review, September 1960, p. 624-654.

2) As Hirschman has put it, the process starts predominantly with the manufacture of finished consumer goods that were previously imported and then moves on, more or less rapidly and successfully to the higher stages of manufacture, that is so intermediate goods and machinery through backward linkage effects. (- O.A. HIRSCHMAN " The Political Economy of Import Substituting Industrialization in Latin America " The Quarterly Journal of Economics - February 1968, p. 6).

vanced countries, tends to create non-competitive market structures. The consequence of all this is that in the long run import substitution may create a vicious circle of small markets enforcing production at high cost, this in turn prevents a widening of the market through exports and thus the ultimate lowering of costs level through economies of scale. Moreover the process of import substitution often discourages expansion in the traditional exports sector which are unable to earn sufficient foreign exchange to cover the import requirements needed to sustain a high rate of industrial growth¹. Once an industrial structure geared to import substitution has been established behind high protective walls, often under the pressure of well entrenched business interests changes become increasingly difficult.

A successful strategy of import substitution must satisfy a number of conditions which one might consider as a code of good policy². Such a strategy should mainly encourage local production of a limited number of goods without attempting to provide substitutes for all import of consumer goods. It should promote, from its beginning domestic production of consumer goods, intermediate products and capital goods in which the country has or can realistically develop a comparative advantage ; it should concentrate from an early stage on products with real export potential based on domestic resources where backward linkages can be maximized ; introduce a system of moderate tariffs so arranged that the effective rates of protection do not vary significantly between industries ; protective tariff barriers should not be discriminatory against either capital, intermediate or consumer goods ; and it should set up a system of export promotion for products meeting specified conditions in order to facilitate prompt entry into international markets. The country should ensure that the traditional export sector is not discriminated against and it should determine the size and timing of the import substitution strategy on the basis of a long-term industrialization programme that relates the balance of payments position to the requirements of overall economic growth. A well conceived and efficiently implemented strategy of import substitution based industrialization can make a substantial contribution towards higher incomes, conserve scarce foreign exchange and help to promote exports.

Commercial policy and industrial protection

Policies of industrialization in developing countries raise the question of protection, its necessity, form and extent. Economic arguments for protection have a long history going back, in some cases, as far as to mercantilists and it is not the intention here to discuss all of them. The most well-known and traditional argument is the infant-industry argument by which temporary tariff protection of an infant

1) For a discussion of some of the above issues, see " Industrialization and Productivity " - UNIDO Bulletin 14, 1969 p. 19-31.

2) See " Import Substitution " - Jose A. DATAS-PANERO (Finance and Development - IMF - Volume 8. No 3, September 1971, p. 34-39).

industry is supported on grounds that the existing comparative cost relations are irrelevant, in so far as after a certain period of time the initial production difficulties will have been overcome through practice, and the industry will then be able to produce at lower costs through the full exploitation of economies of scale. The industry will thereby eventually acquire a comparative advantage.

Other arguments¹ have been based on, the use of tariff to improve a country's terms of trade, or as a tool for attracting increased investment. An improved terms of trade can be a source of capital formation, if the extra income is saved. Another means by which commercial policy can contribute to capital formation is by increasing the saving ratio through controls on imports of consumer goods. An increase in the savings ratio, however, also necessitates a reduction in domestic consumption expenditure as a whole. It is also claimed that protection may induce capital formation through its attraction of foreign investment, for a tariff imposed in a poor country with capital scarcity on a capital-intensive industry may induce an inflow of foreign capital. This rests on the basis of the neo-classical trade theory that protection may stimulate factor movements in place of commodity trade, since protection has the effect of increasing the relative scarcity of the scarce factor in the tariff-imposing country, thereby raising the factors real return and making profitable an international redistribution of the factor. Protection may also induce foreign investors to invest in "tariff factories".

Coming back to the infant-industry argument one of the issues which arise is the necessity and difficulty of selecting genuine infant industries which will entail forecasting changes in cost conditions and the magnitude of future external economies. Instead of trying to impose selective tariffs of sufficient height to encourage particular industries, it may be more expedient to place a uniform ad valorem tariff on the whole range of industrial products and then leave the selection to market forces. This would avoid the overreaching of import substitution into all lines and would still allow specialization according to comparative advantage.

Tariffs are not the only instruments of industrial protection ; other instruments are quantitative restrictions and subsidies. It may be said that infant industry arguments justify the use of production subsidies rather than tariffs since the latter limits the size of the domestic market by raising the price of the commodity in question, while the former generally lower the price of domestic products to the benefit of both the consumer and producer. On the other hand while tariffs contribute to government revenue, subsidies represent a claim on it and are therefore politically difficult to accept. Budgetary reasons may actually explain why developing countries use tariffs in preference to production subsidies.

1) See G.M. MEIER " International Trade and Development " (A. Harper International Student Reprint 1964), p. 116-140.

However, Bela Balassa¹ has ardently come out in favour of the use by developing countries of export subsidies to promote their industrialization. Bela Balassa advocates the use of a tariff-subsidy scheme established on a value added basis, which while providing the infant industries of developing countries with the same level of incentives as the excessively high tariff often used would at the same time offer them a more efficient way to industrialize. Moderate export subsidies used in conjunction with moderate tariffs he argues, are less distorting than very high tariffs alone because they encourage industrialization based on specialization and trade and thus enable even small countries to capture economies of scale and avoid the high cost of import substitution. He proposed the use of a uniform rate of subsidies and tariff protection for all manufactures; such uniformity was needed for neutrality as between sectors in order to ensure selection by the market of those activities in which the country had a comparative advantage. The case for a uniform, across-the-board rate of tariff and subsidy rested on the assumption that production externalities were the same for all types of manufacturing activity.

Developing countries could either apply a direct tariff-export subsidies scheme or use multiple exchange rates as incentives. There was no singly optimal incentive level for developing countries; it differed from country to country depending on its level of development. Balassa argued further that the tariff-subsidy scheme should not be a permanent feature but a temporary arrangement to be phased out gradually depending on the size and level of development of the country. In cases where the danger of retaliation exists he advocates the replacement of direct export subsidies by indirect ones. Such subsidies might conform to any of the following characteristics, i.e. they have not traditionally been considered as export subsidies, for example duty rebates or drawbacks on imported inputs used in export production; they are subject to conflicting interpretations such as various institutional measures for export promotion; they have been used by developed countries themselves, for example preferential export credits, credit insurance schemes and income tax deferrals. Bela Balassa finally proposes the reform of international rules in such a way as to enable developed countries to waive their rights to use countervailing duties against imports from developing countries benefitting from a tariff-subsidy scheme, as long as they fulfilled the over-all conditions with respect to uniformity, symmetry and level.

1) The ideas of Bela Balassa have been developed in a number of studies, but for an exhaustive discussion of them see "Export subsidies by developing countries: Issues of policy" by Bela Balassa and Michael Sharpston (Graduate Institute of International Studies, Geneva and the Trade Policy Research Centre London - 1977).

COMMERCIAL POLICY MEASURES AND THE BALANCE-OF-PAYMENTS PROBLEMS OF DEVELOPING COUNTRIES

The correction of balance-of-payments deficits is a major objective of commercial policy in developing countries, but it is evident that no universal trade and payments policies apply to all situations and that these policies need to be tailored to individual circumstances. It has come to be accepted that there is a need to "manage" the balance of payments with some admixture of exchange rate devaluation, sound internal monetary and fiscal policies and commercial policy measures, depending on the nature of the disequilibrium.

Quantitative restrictions and customs duties which constitute what one may consider as the classical instruments of commercial policy, form together with import surcharges, import deposits, export subsidies, taxes on exports and imports and even facilities such as export credits and credit guarantees, some of the main trade measures available for correcting balance-of-payments deficits¹. Before examining in detail a few of these trade measures it might be expedient to give some thoughts to the nature of the balance of payments problem mentioned above.

Temporary short-falls

With regard to balance of payment deficit arising out of a temporary shortfall of export receipts, it is advisable in theory to resort to the use of reserves and similar financing, such as the resources of the IMF. In such a situation no drastic corrective measures may be needed. If a low level of reserves makes it necessary to reduce the gap in the balance of payments, temporary measures that are easily reversible such as import deposits or import surcharges or a temporary application or intensification of restrictions, may be justifiable. The corollary of such a policy is that a temporary high level of export receipts should be permitted to work itself out into a surplus. It should not be accompanied by a relaxation of fiscal and monetary measures that would permit a consolidation of the country's reserves. One major difficulty in this case is the problem of ascertaining currently to what extent a short-fall in export receipts is temporary. In the IMF circles, a shortfall in this particular context, is defined not as the amount by which export receipts in a given year falls short of those in the preceding one, but rather a shortfall related to the trend in the export receipts over a longer period.

1) For a theoretical discussion of the use of commercial policy measures for correcting balance-of-payment problems, see "Trade Measures and Adjustment of the Balance of Payments" OECD 1971.

Long term trends

As has already been pointed out unsatisfactory long term trends such as persistent fall in a country's export receipts may eventually lead to balance-of-payments deficits.

One logical measure in a situation like this might be a currency depreciation to permit the balance of payments to be adjusted without excessive application of restrictions or deflationary policies. Alternate measure might be modest increases in import duties, however such a measure might be subject to the constraints of international undertakings such as those under the GATT or those made within the framework of regional groupings. In the short run it may be necessary to adjust the economy to a lower level of real income, something which may create political difficulties in many countries. A case for this is where exports without exhibiting a falling trend, merely stagnates or rise over the long run at a rate which is considered inadequate. This may arise in a country where the rate of growth of the population equals or exceeds the rate of growth of exports so that in the absence of increased foreign financing, a fall in per capita imports takes place.

Deficits that have arisen as a result of excessive credit creation by the domestic monetary system can be corrected, if stability of the exchange rate is to be preserved, through such measures as bank credit squeeze, control of budgetary expenditure as well as prices and income control measures. To be effective they often have to be accompanied by a depreciation of the currency to a realistic level. Where a country's balance of payments is in deficit because its currency is clearly over-valued the obvious adjustment is through a depreciation of currency.

Commercial policy measures

Commercial policy measures aimed at restricting imports tend to be very attractive to developing countries, however most of these measures are in effect meant to be only short term instruments. Where short term restrictive measures take on a permanent form as is often the case in many developing countries, they reflect the existence of a balance-of-payments problem of a fundamental nature which warrant measures aimed at a structural readjustment of the economy. In the following sections attention will be centred on a somewhat theoretical examination of a few of the classical instruments of commercial policy often employed in developing countries, as a basis for their empirical discussion in relation to Ghana, which will follow in the coming chapters.

Quantitative restrictions

Quantitative restrictions on imports range from outright prohibition in extreme cases to bilateral and global quotas and licensing.

Quantitative restrictions¹ imposed for balance of payments reasons often employ exchange restrictions as an instrument especially in connection with import licensing tied to foreign exchange allocation and where imports from scarce currency areas are concerned. Exchange control can in our present context be defined as any interference on the part of the government with the freedom of the market for the exchange of one country's money for that of another².

Some advantages

Quantitative restrictions constitute a favourite instrument of balance of payments adjustment in developing countries because it is claimed that its effects are direct so that if effectively applied they prevent imports from exceeding the levels regarded as tolerable. It is also considered as effective short-term instrument, since quotas can be easily increased or reduced or dismantled altogether. Where internal demand is slow to respond to import price changes and especially where prestige items are concerned quota restrictions are claimed to be necessary tools. Theoretically quantitative restrictions are a more flexible and accurate instrument of import control than tariffs for while duties can make imports totally impossible, they can never limit them to precise quantities for precise periods. Another claim often made in favour of the use of quantitative restrictions over tariffs is that tariffs may not have been reviewed for many years and hence have become unrelated to current price levels. As has already been pointed out, through its action on restricting imports for balance of payments reasons, quantitative restrictions may serve to protect domestic industries.

The effects of quotas are partly connected with the duration of the measures. In particular, the secondary effects on prices and the protection of industry should be small when restrictions are introduced for a comparatively short period. The effect of quantitative restrictions are also to an extent dependent on the coverage of the measures applied. For example if quotas are applied to only a few products, their protectionist character is automatically more pronounced and there is every chance that the restrictions will be applied

1) A general prohibition of quantitative restrictions is a basic provision of GATT; nevertheless they remain fairly numerous on both manufactured and agricultural goods and particularly on the latter. Quantitative restrictions on imports are therefore an important target of the work programme of GATT for the expansion of international trade, and have now been merged with the general exercise on the elimination of non-tariff barriers to trade. The main exception to the general GATT rule against quantitative restrictions allows their use in balance-of-payments difficulties. Even then restrictions must not be applied beyond the extent necessary and must be progressively reduced and eliminated as soon as they are no longer required. This exception is broadened for developing countries by the recognition (in Article XVIII of GATT) that the demand for imports generated by development may require the maintenance of quantitative restrictions in order to prevent an excessive drain on foreign exchange reserves. Regular consultations in GATT are held with countries that maintain import restrictions for balance-of-payments reasons and countries introducing new restrictions, or intensifying existing restrictions, are also required to consult.

2) For a comprehensive study of exchange control practices, see R.F. MIKESELL " Foreign Exchange in the Post War-World " (The Twentieth Century Fund 1954).

to products for which the domestic industry is well placed to compete with foreign suppliers. This is not always the case, however, in so far as the restrictions are concentrated on products regarded as non-essential.

Some drawbacks

However a permanent reliance on a rigid system of exchange and import restrictions may have harmful effect. If they are used in the face of excess demand they easily lead to scarcities, bottlenecks and other distortions in the economy. By their action in inducing increases in prices of imports, and in protecting the domestic market they stimulate production for which the country applying them may not be naturally geared and hence may lead to a misallocation of resources. When they are used in an inflationary situation, the issuance of an exchange or import permit becomes a privilege of considerable economic value and often leads to bribery and corruption. In many instances since licenses are usually given in proportions to the imports of individual firms over a reference period competition among importers is limited and new firms find it difficult to establish themselves. A serious drawback in the use of quantitative restrictions is the difficulty in its administration. The right amount of quotas have to be fixed, they have to be shared among importers, import licences have to be issued, and their use supervised ; these and other minor bureaucratic delays result in serious obstacles to importers.

Some conclusions

For all these reasons, the usefulness of exchange and quantitative restrictions as a method of balance of payments adjustment is questionable. Where there is considerable excess demand, import and exchange restrictions can assist in reserving scarce resources of foreign exchange for imports considered to have a high priority from the point of view of development. It is preferable, however, as far as possible, to use measures of fiscal and monetary policy to adjust total import demand for consumption and investment goods in accordance with the targets set for each.

Custom duties

Custom duties have not played a very important part in the machinery for correcting short term balance of payments deficits. This is partly because customs duties and quantitative restrictions are to some extent alternatives. When quantitative restrictions are in force, the use of customs duties as an additional measure to reduce the volume of imports would be of limited value and may only probably serve to transfer to the state some of the additional price margins enjoyed by the importer. Moreover, as has been pointed out above, action on customs duties cannot take effect as rapidly or as reliably as action in the form of quotas, and as such may not be suitable for correcting short-term deficits. Customs duties may however come to

their own where policies are geared towards import substitution and export promotion programmes, or towards medium and long term structural changes in the economy.

INFLATION AND COMMERCIAL POLICY

It is a reflection of the high ratio of their external trade to their gross national product that foreign trade plays a great role in the generation of inflationary pressures in developing countries. These pressures may have their sources in both trade deficits and surpluses. Increasing export proceeds normally leads to growth in domestic incomes which in turn leads to rising demands for imported consumer goods if not counter-balanced by new fiscal and monetary measures aimed at siphoning part of the newly generated income into national savings and capital investment. The check against unbridled consumer imports which will have to be introduced at this point will only serve to reinforce the inflationary pressures in view of the relatively low elasticity of domestic supplies which is a characteristic of developing countries. While increased imports might in these circumstances reduce the inflationary pressures, the result might be to generate balance of payment deficits in the long run.

Inflationary pressures can also be generated by a downward turn of export proceeds, associated with the reluctance and slowness of wages and incomes in following deflationary forces in the economy engendered by lower exports. Moreover as tax-yields decrease, public expenditure which can normally not be adjusted downwards quickly, will invariably be financed by budget deficits. At this juncture part of consumer demands which have not fallen, or not fallen enough will be directed towards imported goods. If then with falling export proceeds, imports of consumer goods have to be cut down severely in order to divert foreign exchange toward capital goods imports, this by itself will induce inflationary pressures.

The use of commercial policy measures to combat inflation is a comparatively new departure, and they are normally taken to impinge on the flow of goods or export earnings either as independent measures or as supplementary to other internal fiscal and monetary measures. Many governments in developing countries have succeeded in wiping out or sterilizing the inflow of excess purchasing power by the imposition of *ad hoc* export duties or the establishment of variable export duties whose *ad valorem* incidence increases *pari-passu* with world prices. If the proceeds of these duties are not spent by the government to increase consumption, the inflationary pressure can be mitigated. Even when inflation is due to internal factors, commercial policy measures have been considered applicable. Import duties on sensitive items may be suspended in whole or in part and import restrictions may be relaxed ; such measures will lead to a higher degree of competition between the local and the foreign products and depress price levels. This latter technique has rarely been applied in de-

veloping countries¹ for reasons of balance of payments and revenue, for as long as customs duties are considered a source of revenue, the treasury is reluctant to reduce the level of taxation. The substitution of protective tariffs for protective quotas generally also leads to a higher degree of competition and avoids excessive price spurts.

THE POLITICS OF COMMERCIAL POLICIES ; - INTERNAL AND EXTERNAL

Commercial policies form an integral part of the general economic policies of a country and are closely related to and influenced not only by the basic economic problems and needs of the country but also by the internal social and political forces present, the political alignments present and their fundamental social and ideological orientations, etc... Thus commercial policy measures such as those concerning industrial protection, protection of incomes and employment, are often taken in deference not to economic but to political and social imperatives.

In many countries both developed and developing, measures of industrial protection are often taken at the instance of organized pressure groups on whose support the government in power might depend, or are very effective in influencing public opinion. The highly subsidized and protected agriculture of many industrialized countries can partly be justified by the necessity to protect the incomes and livelihood of their farmers who in many cases tend to belong to a rather conservative social group. The clamour in certain industrialized countries for high tariffs on imports from lowwages countries, mostly developing countries, is also a well known case. It may also be claimed that the export duties on certain commodities in developing countries while being a major source of revenue in these countries serve as a tool of income redistribution of some sort. This should however be considered against both its disincentive and incentive effects on production. In recent years environmental and consumer protection groups have been increasingly effective in influencing commercial policy decisions and measures. Most of such measures are in the field of non-tariff barriers such as health and sanitary regulations, and standards. Such measures adversely affect developing countries most since they are often in a weak position to satisfy them. The extra cost of meeting anti-pollution and health standards may adversely affect the competitive position of exporters.

As already stated the commercial policy of a country also forms an integral part of her general foreign economic policies and is to a large extent influenced by and in turn influences her international political relations. Even though foreign economic policy is concerned

1) A recent example of such a policy in a developing country are the trade liberalization measures taken by the government of Nigeria in 1974 and 1975.

with the long term objective of maximizing national power it can actually operate on only one single element of national power namely, national economic power defined in this context as essentially representing the ability to control or influence the behaviour of other nations in economic matters¹. National power is here being defined as embodying various elements, economic, political, military, etc... This possibility for influence is based on the fact that the world economy being based on a rather elaborate international division of labour is a system of inter-relationships in which to a greater or lesser degree every state is dependent on all the others for commodities and services of various kinds, for markets and investments, for technology and skills. The result of this inter-relationship is that some countries by virtue of the above elements playing in their favour often find themselves in a position to control or influence the policies of others, while the more dependent ones become exposed and vulnerable to such influence and control. As Hirschmann² has put forward " the power to interrupt commercial or financial relations with any country, considered as an attribute of national sovereignty, is the root cause of the influence or power position which a nation acquires in other countries ". On the other hand as Tumlrir³ points out, the concepts that have traditionally guided policy making - national sovereignty, national interest and national power - are not easily definable in an increasingly interdependent world. While generally developing countries are in a weak position to exercise such power especially in their relations with developed countries, there are few cases where for example their possession of certain strategic raw materials such as petroleum and uranium has conferred on them influence out of proportion to their real economic or military strength. In the next few sections some attention will be devoted to two important external factors which have been influencing the commercial policies of developing countries, namely the multinational enterprise and international organizations.

The multinational corporation and commercial policy

In the politics of international economic relations in general and trade in particular, and in the complex of external and internal factors which influence the commercial policies of nations, multinational

1) For a discussion of these issues, see O.A. HIRSCHMAN, " National Power and the Structure of Foreign Trade " (Berkley-University of California Press 1945), p. 16 ff.

2) O.A. HIRSCHAMNN, op. cit. pp. 31.

3) Jan TUMLRIR, " Some Unnecessary Problems in International Economic Relations " an address to the Foreign Affairs Club London. 24 February 1975.

companies¹, with their world-wide connections, have come to play an important role. Multinational companies have been present in developing countries for a long time. In Africa they range from the Unilever Group, whose origin dates back to the 19th century to modern giants like ITT, IBM and British Petroleum, etc... Their activities have ranged from plantation farming ; import and export trade ; manufacturing ; shipping ; mining and prospecting to banking. Thus in many ways they pioneered in integrating African countries into the modern international economic system, during the colonial era.

Significance of multinationals to the economy of developing countries

First and foremost multinational corporations have been and are a major source of new investment, due to their superior economic power and easier access to international financial markets. In 1968, developing countries accounted for about one third of the book value of foreign direct investment by the multinationals². Half of foreign direct investment in developing countries was in the development of natural resources, a little less than one-third in manufacturing and the rest in trade, public utilities, transport, banking, tourism and other services. Generally speaking, the relative importance of the multinational corporation in developing countries is rising in the manufacturing and services sectors and declining in the primary industries. This however differed from region to region and country to country. In Africa 39 per cent is in petroleum, 20 per cent in mining and smelting and 19 per cent in manufacturing³. In some countries, the foreign content of the local economy is very high and at times concentrated in one sector. In Liberia for example the export economy is largely dependent on the activities of two foreign companies, the Firestone in rubber production and processing and LAMCO in iron mining.

The investment activities of multinationals have, in many instances, generally led to the opening up of large areas of some countries through infrastructural development, to the introduction of new skills, and offered large employment opportunities. Their services and activities in trading, banking, shipping and insurance have become training grounds for the professional and managerial cadres of many

1) Multinational or more correctly transnational enterprises have been the subject of recent studies by the United Nations. The reports on these studies and their accompanying bibliography offer a fairly comprehensive literature on the subject : (i) Multinational Corporations in World Development - (ST/ECA/190 - United Nations New York 1973). (ii) The Import of Multinational Corporations on Development and on International Relations (E/5500/Rev ; ST/ESAL6 ; New York 1974). (iii) The Acquisition of Technology from Multinational Corporations by Developing Countries (ST/EAS/12 New York 1974). (iv) Transnational Corporations - A Selected Bibliography (United Nations - New York 1975). A number of studies have also been compiled by the ILO.

2) Based on rough estimates made by the OECD. See OECD - " Stock of Private Direct Investments by DAC Countries in Developing Countries " - end 1967 (Paris. 1972).

3) Ibidem.

developing countries. Multinationals have thus become a major source of transfer of technology and know-how to developing countries, a factor which is enhanced by their greater research facilities and organizational structure.

In the field of manufacturing, transnational corporations are to a large extent responsible for the growing appearances on world market, of manufactures mostly of the labour intensive kind from developing countries where they are increasingly active either through normal operations by way of new plants, by branch firms takeover of indigenous firms or through the so-called off-shore assembly¹ or free-port manufacturing zone operations. Such exports often not only benefit from the transnationals' extensive control of marketing and distributional channels aided strongly by intra-firm trade, but also qualify for duty concessions in developed countries².

Multinationals in developing countries : Some problems and issues

The advent of independence in colonial Africa has not diminished the importance of the multinational corporation in the economy, as has been discussed above ; in most countries their importance has even increased with the arrival of new investors from countries other than the former metropolitan powers. This phenomenon in a way reflects the growing predominance of the network of multinational enterprises in the world economy to such an extent that almost every country, other than the purely communist ones, short of practising a policy of total exclusion of external investment, is obliged to find a way of living with it.

In view of their growing importance, multinationals have increasingly come under scrutiny in many countries and in international fora. In developing countries, they have been accused of undue dominance of the economy, controlling the structure of production, structure and direction of trade ; of indulging in restrictive trade practices and hindering competitive production and trade ; of tax evasion through manipulation of across-border intra-corporation transactions, etc... This has raised the question of whether and how multinationals are to be controlled nationally and internationally.

1) For example, it is now a common practice for a number of transnational corporations to send materials, or components from developed countries to certain developing countries for labour-intensive assembling operations or processing. The intermediate or final products are then reimported for finishing or sale by the transnational corporations in particular to the countries from which the inputs originated. This process was started in the electronics industry and has since spread to a number of other industrial sectors, such as electrical appliances, machine tools, small machines, optical equipment, musical instruments, cameras and watches.

2) For example, imports into the United States under the relevant tariff items increased from \$61 million in 1966 to \$2,807 in 1976, in which year such trade made up over 15 per cent of total United States import of manufactures from developing countries. (For details, see Helleiner, G.K. " Intra-firm Trade and the Developing Countries : Patterns, Trends and Data Problems "). (Paper presented to a seminar on intra-firm transactions and their import on trade and development, sponsored by UNCTAD and the Institute of Development Studies at Sussex, November 1977).

Some developing countries have approached the problem by effecting controls through legislative action or equity participation where feasible. Thus some multinationals have been obliged to shift activities from the production and trade in primary products to processing and manufacturing, and where trading is concerned, to diversify their export markets or sources of imports ; some of them have been obliged by legislation to loosen their links with their parent bodies and thus make themselves more malleable to local control.

Some of these mutations have however been effected not without creating tensions with the home governments or damaging the investment opportunities of the developing countries concerned. Moreover these attempts at control have often resulted only in substituting one form of influence on the economy and on policies for another. For example where the multinational has been obliged to shift activities from the primary sector to the manufacture sector often in the form of import substitution industries, the developing country has been obliged or even coerced to adopt commercial policies aimed at protecting these industries often with a negative effect on efficiency and resource allocation ; where these industrial activities are in the form of assembling or finishing plants they only substitute one form of importation for another without affecting the direction of trade or the desired saving in foreign exchange resources ; franchise and, subcontracting arrangements between the parent company and its foreign branch are sometimes used either to control the scope of activity of the latter including exports or to promote trade between sister companies based in different countries. Influencing policy decision in country of domicile continues to be exercised less directly than in the colonial period but through equally effective means such as threats of cessation of activities especially where they are of a vital nature ; pressures from governments representing the enterprises concerned either diplomatically or directly through cessation of aid or withdrawal of export credit facilities, etc... ; or through more surreptitious ways such as bribery and corruption of politicians and high officials¹. It is still a matter of debate as to the extent and manner in which multinational corporations need be controlled but such is the complexity of the phenomenon and the problems involved that any controls can only be effectively applied through an admixture of national and international measures. With regard to the latter, recent discussions in the United Nations, International Chamber of Commerce, EEC, the OECD and other international organizations have centred on the formulation of some forms of international code of conduct or guidelines² on the activities and practices of the multina-

1) Multinational corporations have also been accused of interfering in the internal politics of host countries to the extent sometimes of supporting parties whose politics might be sympathetic to them. Some have even been accused of plotting (or encouraging the overthrow of governments. Some of them have been used by their own governments to influence the policies of the host government).

2) For some efforts in this direction, see the " Guidelines for International Investment " prepared by the International Chamber of Commerce and the " Multinational Undertakings and Community Regulations " of the E.E.C. Commission (COM 73.193, Brussels 9/11/73).

tionals. The formation of regional economic groupings among developing countries may provide them with the economic strength and means to control or influence the activities of the multinationals.

INTERNATIONAL AND REGIONAL INSTITUTIONS AND COMMERCIAL POLICIES

Most of the measures discussed in this chapter have often been taken within the framework of national policies ; there are however scopes for action within international framework and this is becoming more and more an integral part of the strategy of developing countries. It is in this perspective that one can view the efforts of developing countries in such organizations like the GATT, IMF, UNCTAD, FAO and UNIDO to mobilize international action in their favour. The use of IMF resources, regular drawings, compensatory finance, and SDR'S provides a major tool for tackling short-term deficits in the balance of payments. The series of multilateral tariff negotiations undertaken within the GATT since the end of the last world war and the recently instituted Generalized System of Preferences in favour of developing countries have, to a large extent opened the markets of developed countries to the manufactures of developing countries and efforts are currently being made by developing countries to exchange tariff concessions among themselves in their efforts to expand their mutual trade. Since the ending of the Kennedy Round of tariff negotiations the emphasis has to a large extent shifted to the dismantling of non-tariff barriers to trade and to the adoption of special measures, commercial, fiscal, monetary and otherwise, aimed at encouraging industrialization efforts in developing countries. Efforts are being made through international commodity councils and within wider international frameworks to liberalize and regulate trade in the major primary commodities. International Organizations like the GATT, the UNCTAD, the UNIDO, IMF, the UN regional Commissions have thus become important fora for the formulation of international economic policies and guidelines for action. Some of these organizations will be discussed in greater details in later chapters.

Another external source of influence on the trade policies of developing countries are the regional economic institutions which have proliferated since the end of the second world war. The European Economic community which has with the accession of Great Britain, become the greatest trading power in the world, is already having a profound effect on the pattern and structure of the trade of many developed and developing countries. This trading block has inevitably pulled into its orbit many developed and developing countries in various forms of associations and it is still a matter of debate whether these forms of associations are in the best interest of international trade as a whole and in particular of the developing countries concerned. Probably, even more significant, from the point of view of developing countries have been the efforts at regional economic

integration among themselves, which can be partly justified by their desire to form wider markets as the frameworks for industrialization and the promotion of a more vigorous mutual trade.

GENERAL MODELS OF COMMERCIAL POLICY ORIENTATION

An almost infinite variety of manipulations and negotiations of commercial policy is possible depending on the resources available to the state and the proximate goals of its general foreign policy, some of which have already been examined in the early part of this chapter. Benjamin Cohen has outlined three principal models of commercial policy orientation¹. His first model is that of a small state, small in population, in geographical area and in natural resources, trying to follow a policy of political neutrality in international affairs. It is highly specialized in the relatively few lines of production in which it enjoys a comparative advantage. It has a high foreign trade ratio. Being neutral, however it presumably wishes to minimize the influence on itself of the outside world in general and of any single great power in particular. It will therefore use its commercial policy defensively to minimize the danger to itself of stoppages in any part of its foreign trade thereby reducing its dependence on the outside world ; it will also alter the commodity composition of its foreign trade, increasing the range of exports while probably decreasing that of imports, thereby reducing the state's specific dependence on any single trade item. In addition the state will use its commercial policy to diversify the geographic composition of its trade, in order to ensure that no single large trading partner will control too great a share of its foreign markets or sources of supply. This last aim has been described by Hirschmann as an elementary defensive principle of the smallest trading nations².

At the other extreme is the model of an extremely large state trying to follow a path of political predation or preservation of existing hegemonies. Such a state will try to use its commercial policy rather aggressively than defensively. It will attempt to exploit the fact that being large it is likely already to be an important influence in world trade, even though, in relation to its own total production, its exports and imports may be rather small : logically its aim will be to maximize its power to threaten interruptions of the commercial relations of others, particularly of those states it wishes to dominate, at least cost to itself. Thus this state will first of all, oppose all efforts by others to restrict or divert international trade in general, on the principle that this could diminish the power it derives from its domination of individual markets whether as buyer or seller. Secondly it will itself seek to divert its own trade away from states larger and richer than itself to smaller and poorer states, on the principle that

1) See B.J. COHEN, *op. cit.*, p.1-30.

2) O.A. HIRSCHMAN " National Power and the Structure of Foreign Trade ", *op. cit.*, p. 13.

this creates conditions that make the interruption of mutual trade of much graver concern to each of its trading partners than to itself. One can cite many other actions such a state might take to strengthen its position in international trade.

The third model is the intermediate case of a state that is neither small enough to be neutral and innocuous nor large enough to be predatory or hegemonic. Such state will seek to preserve its national security through a general foreign policy of compromise, agreements and alliances since this would in addition maximize the group's joint power to bargain and to influence the policies of other countries; it will also be an ardent supporter of international organizations. In this case the price of national security is the sacrifice of a certain degree of economic sovereignty.

It is apparent that in the real world virtually all states in fact follow one or another or more likely some combinations of the above models. Many developing countries may use the first model for the most part because of their general interest in non-alignment with any of the large power blocks, but also simply because of the difficulties involved in an effective approach along the third line of policy. There are however the very smallest countries, mainly developing countries, but also some relatively developed ones, that apply an extreme case of the third model.

In this chapter an attempt has been made to discuss and examine the complex of issues and problems and factors which influence the commercial policies of developing countries and some of the policy measures, instruments and approaches which are often employed. In the following chapters attempts will be made to relate some of these to the case of Ghana.

Chapter II

SOME GENERAL FEATURES OF THE GHANAIAN ECONOMY TRADE RELATED ISSUES AND POLICIES

INTRODUCTION

The main objective in this chapter is to give a general outline of some of the major features and problems of the Ghanaian economy, with the main emphasis on production and trade, during the period under study. There will be no attempt to go into a detailed analysis of policies and their implementation as this is intended for the substantive chapters which follow.

The economy of Ghana like that of most developing countries is characterized by its heavy dependence on activities in the primary production sectors, namely agriculture, forestry and mining and by its high degree of inter-relationship with the outside world. About 60 per cent of the working population is employed in the agricultural sector including forestry, and agricultural marketing ; agriculture in 1974 provided half of the total gross domestic product. Around 80 per cent of the country's export receipts are derived from agricultural exports mostly in the form of cocoa beans and cocoa products, timber and timber products. Agriculture is thus central to the future of the economy and its development is an essential prerequisite for sustained economic growth. The high dependence of the economy on the outside world is reflected in the relatively high share of exports and imports in the GDP, roughly 15 per cent each way, on the basis of 1975 estimates. Implicitly it is the basic structure of both production and of foreign trade that renders the growth of the Ghanaian economy highly sensitive to development in the external sector. Industrialization is in its infant stages and although it currently satisfies a substantial part of the country's need in consumer manufactures, its contribution to the GNP and to exports is not significant.

GENERAL SECTORS OF THE ECONOMY : AGRICULTURE

Agriculture in Ghana has been characterized by low levels of productivity and inadequate marketing and distribution facilities especially in the sector of food production resulting in serious shortages

and high prices. The low productivity which has made Ghana a net importer¹ of food since a number of years can be imputed to a number of factors ; antiquated land tenure system, inefficient system and means of cultivation, labour shortages due to growing urbanization, and on the whole an absence of a commercialized approach to food cultivation. Moreover for a long time food production has been neglected by successive governments as compared with the attention given to the cultivation of export cash crops.

The main export crop is cocoa of which Ghana is the largest producer and exporter in the world and which not only provides about 30 per cent of public revenue mainly in the form of export duties, but also about 65 per cent of the foreign exchange earnings and supports around 40 per cent of the population. Other agricultural products apart from timber and timber products include a large variety of food and industrial crops like cotton, coffee, rubber, citrus fruits, spices, sugar cane, tobacco and vegetable oilseeds and oils destined mostly for processing. In relation to the external economy the main objectives of the agricultural policy of recent successive governments have been to maximise the contribution of this sector to export earnings. Maximization of the contribution of this sector to the foreign exchange earnings has been translated into a series of policy measures, which aim at maintaining Ghana's share of the cocoa production and trade which has declined from 39,4 per cent in 1963 to roughly 26 per cent² in 1974 and a diversifying the traditionally monocultural agricultural export production by the introduction and encouragement of new export crops such as cotton, rubber, coffee, vegetable oil seeds and oil, spices, fruits, sisal, other vegetable fibres, etc... These products are not only intended for export trade but also to supply the raw material for industrial processing, and manufacturing.

In food production the basic problem has been the need to change from the hitherto essentially subsistence approach to commercialized farming. Central to this should be the establishment of an efficient pricing system based essentially on market forces, accompanied where necessary by support mechanisms. Administrative pricing with its tendency to ignore market realities should be avoided as much as possible. Greater efforts have to be made towards raising the productivity of farmers, through the organization of more efficient production units where necessary, through improved farming methods such as the use of fertilizers mechanization and irrigation where feasible

1) The growth of food production in Ghana seemed to have kept pace with the increase of demand associated with population growth and rising per capita income until the late 1950's or early 1960's. Prior to that time there was a slow increase in the imports of products such as wheat, flour, sugar and dairy products that are universally consumed in increased amounts as incomes rise and urbanization grows. From about 1959, the rate of increase of imports of wheat, flour, sugar and especially rice accelerated. Food imports reached £ 62.6 million in 1971 (14 per cent of total imports) and £ 111.7 million in 1973 (21 per cent of total imports).

2) See chapter VI of this thesis for a study of the cocoa industry from a commercial policy approach.

and better advisory services. Of vital importance is the problem of developing infrastructural facilities in the form of secondary and feeder roads systems complimented by an effective transportation, distribution and storage facilities. Also basic to the problem of farming is the growing labour shortage in the rural areas which belies the often readily accepted assumption of large labour surplus in the rural areas of developing countries. While it is true that a large amount of under-employed labour exists, the steady and growing drift of labour from the rural to the urban centers is at the basis of this shortage. A way of arresting this drift may be found in a more positive approach to rural development.

Without achieving such transition any attempt at industrialization will be self defeating, as the recent history of the country has illustrated with spiralling cost of food, shortage of staple food items, shortages of agricultural raw materials needed for local processing and manufacturing plants. As Sir Arthur Lewis remarked¹, "a vigorous agricultural programme is needed not because food is scarce, but because this is the road to economic progress". Speaking in a colonial "Ghana" which in the present context has not changed much, he states emphatically that "the most certain way to promote industrialization in the Gold Coast is to lay the foundation it requires by taking vigorous measures to raise food production per person engaged in agriculture". An efficient agriculture sector should provide food for the increasing industrial labour force moreover as productivity grows and the proportion of the population required in food production falls labour is released for manufacturing industry; an efficient agriculture may provide raw material for manufacturing plants and increasing productivity and income in the agricultural sector provides an ever increasingly market for manufactures.

Agricultural exports

One of the most glaring points which stands out when analysing the performance of this sector of the economy over the past two decades has been the failure to develop new export commodities to augment the foreign exchange earnings from cocoa.

Any programme of agricultural export diversification must reserve an important role for stable food products which, under rational and efficient production and marketing can serve not only the domestic objectives described above but also provide a major source of foreign exchange through export. As far as purely export-oriented production is concerned the direction must lie in a development on a broad front especially in view of the present state of international trade in primary commodities, characterized in many cases by price instability, diver-

¹ See "Report on Industrialization and the Gold Coast" by Prof. W.A. LEWIS (1952 - State Publishing Corporation - Accra).

TABLE I

COMPOSITION OF EXTERNAL TRADE - RECENT TRENDS

EXPORTS : COMMODITY CLASSES (Volume)

	(Volume) ₦ 'million					
	1970	1971	1972	1973	1974	1975
Cocoa and cocoa products	328.8	236.6	320.7	393.2	562.7	647.0
Logs	19.9	20.5	42.3	88.5	63.9	49.1
Sawn timber	17.1	12.2	21.2	41.7	33.9	28.2
Bauxite	1.3	2.3	2.7	2.6	3.5	4.3
Manganese ore	7.2	6.6	10.1	7.3	10.5	17.1
Diamonds	14.5	11.7	18.6	13.1	14.6	12.7
Gold	25.7	28.4	50.4	70.1	94.8	83.8
Aluminium alloys	31.9	29.7	56.9	46.1	33.3	33.0
Other	21.2	28.9	41.5	67.8	23.6	63.1
TOTAL	467.4	376.9	564.4	730.4	840.9	938.3
Of which re-exports	7.1	8.5	15.0	33.0	9.1	10.1

IMPORTS : COMMODITY CLASSES

	₦ 'million (C.i.f.)					
	1970	1971	1972	1973	1974	1975
Food and live animals	79.5	62.6	72.2	111.7	140.6	104.9
Beverages and tobacco	3.9	4.6	2.3	4.9	7.1	6.7
Crude materials, inedible, except fuel	9.4	12.4	13.2	22.8	28.8	27.9
Mineral fuels, lubricants and related materials	24.4	27.0	45.3	46.8	156.5	150.9
Animal and vegetable oils and fats	3.8	5.2	5.2	6.8	15.4	9.9
Chemicals	66.9	71.6	63.9	91.1	123.3	126.6
Manufactured goods classified chiefly by materials	100.8	99.4	68.2	106.8	221.0	207.9
Machinery and transport equipment	108.1	131.5	104.3	111.3	212.4	228.1
Miscellaneous manufactured articles	16.4	19.2	11.3	14.9	27.7	28.9
Commodities and transactions not classified according to kind	5.8	9.6	7.3	10.6	10.9	17.4
TOTAL IMPORTS	419.0	443.1	393.3	526.0	943.7	909.3

Source : Central Bureau of Statistics (ACCRA).

sification by producing countries into each other's commodities, competition from substitutes both natural and synthetic, and market arrangements which often restrict production by new producers. In Ghana such products range from coffee, rubber, vegetable oilseeds and oils, to a host of fruits, nuts and spices which the country has proven capacity to produce.

A distinct sector of the agricultural economy of Ghana is forestry which is the basis of the country's most important export after cocoa. The timber industry is however beset by several problems of both short and long term nature. Short-term problems include severe transportation bottlenecks, high cost of extraction due to the highly limited number of species extracted, scarcity of imported equipment and spare parts for the industry and difficulties resulting from constant changes in Government's policy especially towards foreign concessions¹. It may also be pointed out that only a few of the Ghanaian timber firms were organised in units strong enough to face the difficulties involved in the extraction, transportation and marketing. The long-term problems are few but serious namely the threat of exhaustion of primary high-value species and deforestation.

The main policy objectives in recent years, with regards to forestry has been to maximize export earnings from this sector and rationalize the exploitation of the forestry resources generally. Policy measures have thus been directed with limited success towards increased processing of logs for export into veneer, plywood and knocked-down frames and furniture ; the utilization of secondary species on the home market, revision of concessions and timber-taxation policies, improvement in transportation, provision of production and transportation subsidies, export bonuses and an expanded afforestation programme.

MINING

Mining is another major sector of the economy, however, in recent years it has been of declining importance to the economy both as a contributor to the GDP (2.1 per cent in 1974) and as an employer of labour. In 1962 mineral exports contributed over 22 per cent of total exports of domestic products and in 1975 the figure was around 12,6 per cent (excluding aluminium exports) which makes it still an important export sector. In fact the mining industry is predominantly an export industry and from the point of view of ownership, is a mixture of State and privately owned enterprises. Ghana's minerals can be grouped into two main classes, those which have

1) There have been many occasions when Ghanaian producers have exerted political pressures on the government to reduce or even terminate the concessionary rights of foreign producers. By 1972 the governments took a majority share in most of the major foreign timber producing companies, in line with the government policy of " capturing the commanding heights of the economy ", in other words assuring Ghanaians effective control over the significant areas of the economy ; those which exert considerable influence on the total economy of Ghana.

been developed and are now being worked for export and others undeveloped either because the necessary industries have not been started or because exploration is still in progress. In the first group are gold, diamonds, manganese, and bauxite; the other group includes iron ores, chromite and asbestos limestone and marble, petroleum and bitumen, salt, kyanite, uranium and beryl.

Among the minerals currently being exploited the most important are gold and diamonds, accounting for 11.4 and 1.7 per cent respectively of export earnings in 1974. The future of gold mining has in recent years been clouded by depletion of reserves, rising operating costs and the general international situation in regard to this metal. The introduction in 1969 of a two tier price systems for gold, the market price and the official price, has given a new lease of life to the industry. From then the market price climbed steadily and averaged about 160 US\$, for most of 1975. This development has led to a review of the Ghana government's policy towards the mines which has resulted in the exploitation of low grade ore deposits in some cases and even of abandoned mines in others. Much will, in future, depend on the evolution of the international price of gold and the discovery of good grade deposits. It is more likely that the downward trend in the volume of production will continue. Unlike gold, the prospects for increased exports of diamonds can be regarded as satisfactory owing to prospects of rising demand¹ for industrial diamonds on the one hand and to increased output prospect on the other. The industry has for years, however, been plagued with unsatisfactory pricing and marketing systems as well as smuggling². There is also a need for the introduction of more rational production methods. With regard to bauxite the long term policy of the government is to develop it as the basis of an integrated aluminium industry, instead of the present situation where the mineral is exported in a raw form while the Valco smelting plant at Tema uses imported alumina. There are also plans for the development of an iron and steel industry on the basis of the country's iron ore deposits. The governments over all policy towards the mining industry may be summed up as follows in a) detailed assessment of the country's mineral wealth, b) rationalization of exploitation, c) promotion of private and indigenous participation in the industry, e) promotion of regional and international co-operation in pricing and marketing policies, d) development of integrated mineral processing and manufacturing industries.

1) As an industrial raw material the level of demand is of course dependent on the level of industrial activity in the importing industrialized countries.

2) Small scale private diamond winners once accounted for a large percentage of production. But as diamond sales began to be controlled through the Ghana Diamond Marketing Corporation about 10-20 per cent of private winnings were lost through smuggling. And with the 1966 ban on alien winners and more rigorous mining licensing procedures to control smuggling many private winners have been forced to leave the country.

MANUFACTURING SECTOR

The manufacturing sector is relatively small but has seen a fairly rapid growth in recent years. Output rose from ₵ 71.4 million in 1962 to ₵ 572.4 million in 1972, all at current prices¹. In 1969 the share of the manufacturing industry in the GDP was 11.8 per cent, in 1974 the percentage share stood at 11.0 per cent. The sector consists of a large number of technologically simple concerns, the great majority of which employ less than five employees and a small number of medium and large establishments. The principal industrial groups by value are wood and paper, textiles, tobacco, food and beverages, chemicals and metal products.

Industrialization has long been an official policy in Ghana. As early as 1947 the Government created the Industrial Development Corporation (IDC)² charged with the mandate of "securing the investigation, formulation and carrying out of projects for developing industries in the Gold Coast". Industrialization has been a major feature of all development plans since then. The various industrialization strategies open to Ghana were analysed in a report on "Industrialization and the Gold Coast" prepared in 1953 for Gold Coast government by Arthur Lewis³. He outlined the main (industrialization) strategies open to Ghana as a) processing for export primary products which were previously exported in crude state, b) manufacturing for the home market (mainly through import substitution) and c) manufacturing for export, often based on imported raw materials. A study of industrialization in Ghana over the past two decades brings out a pattern based mainly on the second strategy with increasing emphasis on the other two.

One of the main difficulties with regard to processing for export is the need to break through to the highly competitive and sophisticated markets of the industrialized countries. Developing countries like Ghana which want to export processed primary products which were previously being exported to the industrialized countries in their raw form are faced with the disadvantages represented by the technological and managerial gaps separating these countries. The exception to this would be those products where there is a weight loss in manufacturing and the transport cost is high relative to the value of the products. In the context of Ghana two such industries which offer themselves are the timber industry which is already fairly developed and the aluminium industry based on the extensive bauxite deposits. The processing of cocoa for export is already becoming a

1) See African Statistical Yearbook 1974 - Part 2 - West Africa (E.C.A.). The 1972 manufacturing output was based on the performance of establishments with 30 or more persons engaged (UN Yearbook of Industrial Statistics - 1974 Edition - Vol. 1) Figures were provided by the Central Bureau of Statistics - Accra.

2) Gold Coast Industrial Development Ordinance 1947, Section 3 (1).

3) Arthur LEWIS, op. cit. pp. 1-5.

major industry. Other primary products which are being processed for exports are rubber, vegetable oilseeds and oils, tobacco, vegetables, fruits and spices as well vegetable fibres. The processing of primary products is often capital intensive since all capital equipment has to be imported, so that if the added value gained does not result in a net increase in export earnings the overall effect on the balance of payments is negative and the whole process self defeating except the employment it offers.

Despite the possibilities open in the field of processing of primary products for exports import substitution-based industries appear to be the dominant pattern of industrialization, observable in Ghana during the period under study, often with the declared objective, among others, of saving foreign exchange. But then the effect of import substitution on the balance of payments depends on a multiplicity of factors¹ : a) the share of imports of raw materials and semi-processed intermediate goods in the total material inputs ; b) the share of the cost of expatriate managers and technicians in the total labour cost ; c) the degree of capital intensity of production ; d) the share of the investment that is made by foreigners ; e) the efficiency with which the plant is operated ; and f) the suitability of the industries selected. In Ghana most of these factors have operated negatively. Manufacturing in Ghana is import intensive, an estimated 85 per cent of bought-out inputs employed are imported. The ratio of value added to gross output, 52.2 per cent in 1969 and 51.4 per cent in 1972², shows that the industry does not achieve a high degree of processing internally. The manufacturing of a large range of products in Ghana is based on the further processing and finishing of imported semi-fabricated goods such as malt and concentrates of beverages, yarns, milk powder, chemical concentrates, metal sheets and wires, radio and television parts, and parts of cars and mechanical equipment. More fundamental processing is based on imported paper, leather, grains, vegetable oils and yarn. With a few exceptions all these industries are oriented towards domestic consumption. Thus, the overall foreign exchange cost of manufacturing industry in Ghana is high. This also partly reflects another major weakness of the manufacture sector, namely its relatively low linkage with the other sectors of the economy especially agriculture. In 1968, the only year for which input-output table has been prepared, domestic agricultural inputs represented only 13,7 per cent of total material purchases by industry, on the other hand industries which used agricultural inputs, such as the textiles, and vegetable fats and soap industries have had to depend heavily on imported materials. The promotion of integrated production in the above and similar cases has become a major policy orientation.

1) Investment Journal, Vol. 2, No 4, 1971 (Capital Investment Board - Ghana) p. 14.

2) Calculated on the basis of the output of establishments with 30 or more persons engaged (See Yearbook of Industrial Statistics 1974 Edition - Vol. 1 - United Nations).

The general low efficiency especially in the early years was reflected in the modest quality of many of the goods and the high cost of production which made domestic manufactures uncompetitive against imported goods. The main causes of the high cost both of production and of most of the capital equipment and production inputs, managerial short falls as well as low skills, labour instability and especially capacity under-utilization. Capacity under-utilization is in turn due partly to the relatively small domestic market which means either that most plants are of subeconomic size or that the capacity will often exceed the existing domestic demand if an economic size plant is built. A part of the answer to the problem of a narrow domestic market lies in enlarging the market through exports. A further reason for the under-utilization of plants in Ghana is the stop-go nature of the supplies of raw materials both domestic and imported. This is due partly to a stagnant agricultural sector where agricultural raw materials are concerned (i.e. cotton, sugar cane, cattle, kenaf, tobacco, vegetables oils) and partly to scarcity of foreign exchange. Returning to the high cost of production and the inherent inefficiency of many of the manufacturing plants in Ghana probably the fundamental causes could be summed up thus, that most of the projects were poorly prepared, (with poor feasibility studies) poorly executed and poorly managed.

From the point of view of commercial policies, the main problems in this sector are the high level of protection, its heavy dependence on imports, and its low contribution to the diversification of exports. Firstly, there is the question of the very high degree of protection given to industry ; effective rates of protection¹ above 1 000 per cent have been known. Quantitative import controls and restricted domestic competition have resulted in inflated output figures, prices and operating margins compared to other sub-sectors. One issue here is whether industry should be supported through subsidies rather than quantitative import controls or tariff action. The manufacturing sector has not contributed much to the diversification of exports. In 1972, 82 per cent of manufactured exports came from two items, cocoa products and timber products. The need to conserve foreign exchange had hitherto meant that the emphasis in the sector should be placed on import substitution. Policies are however gradually moving towards the use of excess capacity for export and many firms see in the regional economic integration in West Africa a positive factor in this regard. The issues involved in this will form the subject of a latter chapter.

1) The only serious study up till now on effective protection in Ghana is that done by J.C. Leith in his " Foreign Trade Regimes and Economic Development : Ghana " (National Bureau of Economic Research New York 1974). Computed on the basis not only of custom tariffs, but also on surcharges taxes and quantitative restrictions, Proff. Leith established the existence of rates of effective protection ranging from less than 10 per cent, for industries producing mattresses, industrial chemicals and jewelry to 1 000 per cent for shoes and cosmetic industries. (op. cit. p. 74-77).

EXTERNAL TRADE

General background

One of the main characteristics of the Ghana economy is its high dependence on, and vulnerability in, its commercial relationships with the rest of the world. A second characteristic, related to the former is that composition and direction of export trade (see Tables I and III) are closely inter-related in that the former largely determines the latter, which means that it is mainly oriented towards the industrialized countries of Europe, North America and Japan. Finally one can underline the fact that the pre-eminence of exports as a source of national income means that economic growth in Ghana is likewise dependent to a significant extent on the continued and favourable development of its international trade and its external economic relations.

Like most African nations Ghana has not had the option of remaining indifferent to international trade. An external trade led model of economic growth has so far been accepted less as a conscious act of policy than as an outgrowth from the colonial system. This is firstly because at the time of independence Ghana inherited an economic structure that was outwardly directed. The colonial economy was shaped by its orientation to foreign trade; the economic infrastructure including the road network the railways and the ports; the growth of the principal cities, and the economic activity of the majority of the wage labour force, was determined by the fact that the greatest part of production was destined for export to the metropolitan and other industrialized countries. The fact that Ghana like most African nations today is closely involved in foreign trade and has closer ties with Europe than with any other region, is mostly due to this legacy. The other major reason for the involvement of Ghana like many other developing countries is that she lacks the resources, material, human and technological to produce, and the market to consume, an economic output of the wide variety of capital and intermediate goods necessary for the development and functioning of modern economy. Autarchy, which entails foregoing the benefits of international division of labour, is a luxury that only nations such as the Soviet Union and China¹ with vast populations, a relatively sophisticated technological base, and a great variety of natural resources can afford to some degree.

1) Since the rapprochement between the United States and China in 1972 there has been a major upsurge in China's participation in world trade. Her imports from the major market economy-countries (Japan, Western Europe, Australia, U.S., Canada) jumped from 1.66 billion dollars in 1972 to 5.28 billions dollars in 1974, while exports increased from 1.09 billion dollars in 1972 to 2.44 billions in 1974. (See International Trade 1974/75 - GATT, 1975) Table 49.).

TABLE II
HISTORICAL SERIES, 1946-1974
GENERAL TRADE, IMPORTS C.I.F., EXPORTS F.O.B.

	Value in million cedis/new cedis				Convention factors U.S. cents per Cedi/new cedi	
	Merchandise		Gold		Imports	Exports
	Imports	Exports	Imports	Exports		
1946	31.73	35.33	0.0	13.37	167.9200	167.9200
1947	54.22	54.05	0.0	11.76	167.9200	167.9200
1948	75.31	120.38	0.0	13.80	167.9200	167.9200
1949	108.98	104.02	0.02	15.38	153.7900	157.2100
1950	115.51	164.21	0.0	20.93	116.6700	116.6700
1951	153.10	199.34	0.01	20.54	116.6700	116.6700
1952	159.86	183.79	0.0	22.18	116.6700	116.6700
1953	177.12	192.36	0.0	22.70	116.6700	116.6700
1954	170.52	251.45	0.0	23.57	116.6700	116.6700
1955	210.90	207.86	0.07	21.72	116.6700	116.6700
1956	213.40	189.86	0.07	17.97	116.6700	116.6700
1957	232.04	196.34	0.0	23.51	116.6700	116.6700
1958	203.02	225.49	0.0	25.44	116.6700	116.6700
1959	271.25	245.18	0.0	26.88	116.6700	116.6700
1960	311.06	251.74	0.02	26.61	116.6700	116.6700
1961	337.87	250.54	4.92	25.80	116.6700	116.6700
1962	285.79	249.07	0.05	27.01	116.6700	116.6700
1963	312.75	234.17	0.25	27.09	116.6700	116.6700
1964	291.58	250.40	0.24	24.74	116.6700	116.6700
1965	381.75	249.40	0.10	22.86	116.6700	116.6700
1966	301.45	209.21	0.0	20.47	116.6700	116.6700
1967/1	261.51	224.16	0.02	20.97	118.4000	124.0700
1968	313.94	312.99	0.10	25.79	98.0000	98.0000
1969	354.39	307.60	0.0	25.67	98.0000	98.0000
1970	419.05	441.68	0.0	25.70	98.0000	98.0000
1971/1	442.49	345.39	0.65	28.50	98.0000	98.0000
1972/1	392.84	513.98	0.46	50.44	74.3745	76.4723
1973/1	525.68	650.37	0.27	35.50	85.5432	85.6121
1974	945.70	868.00			86.9600	86.9600

System - General Trade. Quantum and unit value indices for exports, however, relate to national produce only.

Valuation - Imports, C.I.F. transaction values : exports, in general, F.O.B. Transaction values. Prior to October 1947, cocoa exports were valued at F.O.B. "cost price, i.e. the price paid to the producer by the cocoa marketing board, plus the costs incidental to placing goods aboard ship. Beginning October 1947, they are valued at F.O.B. transaction values. Exported diamonds are valued as assessed in London. The CEDI was introduced in July 1965 with a value 0.417 Ghana pound : on 23th February 1967, the new CEDI was established with a value of 1.2 old CEDI (1 new CEDI : 140.00 U.S. cents) and, on 8 July 1967, the exchange rate was changed to 98.00 U.S. cents per new CEDI, on 27 December 1971, a new exchange rate of 1.81818 new CEDIS per U.S. dollar (1 new CEDI : 55.00 U.S. cents) was introduced. In February 1972, a new exchange rate of 1.28205 new CEDIS per U.S. dollar (1 new CEDI : 78.00 U.S. cents) was introduced. In February 1973, a new exchange rate of 1.149425 new CEDIS per U.S. dollar (1 new CEDI : 87.00 U.S. cents) was introduced. Exclusions - imports of military goods : prior to 1949, silver specie, token coin and currency notes (intrinsic value probably negligible) : ships and aircraft not manifested as cargo : fish landed directly by foreign fishing vessels.

Foot-notes :

1, see note on "valuation" above

Source : United Nations Yearbook of International Trade Statistics 1974, Volume I Ghana - Table 4.

Evolution of export and import trade

For an analysis of Ghana's last two decades of export trade it might be convenient to consider two periods, namely the decade starting from just before independence (in 1957) up till 1966, and the decade after. One major picture (see Table II) which comes out on first analysis of the trade figures of the former period is the relative stagnation and even decrease in the volume and value of trade with some slight fluctuations. Hitherto there had been a rapid and consistent rise in Ghana's exports from 30 million cedis in 1945 to 275 million cedis in 1954. It had dropped to C 220 million by 1957 and had increased to only C 230 million by 1966, with a top level of C 278 million in 1960. Since 1966 there has been a constant rise in export figures mainly due to rises in commodity prices.

In 1967 exports stood at C 245 million, C 467 million in 1970 and a record C 938 million in 1975. Lack of dynamism in the structure of the export trade is discernible however in its composition, which has remained almost unchanged for decades, reflecting the failure of the policy of diversification. As shown in Table III, the average share of the principal five export commodities in 1953, cocoa beans and products, timber and timber products, manganese, diamonds and gold was roughly 95 per cent; in 1975 the same composition of products made up about 89.2 per cent of exports by value. This stagnation is even more graphically reflected in the position of cocoa in the export economy. In 1953 cocoa accounted for 63 per cent of export earnings and 69 per cent in 1975 more than 20 years later with the significant difference that while the 1953 figure was accounted for almost exclusively by cocoa beans, in 1975 cocoa products i.e. paste, butter and powder contributed about 11.6 per cent of the total exports. This fact however only goes to emphasise the position of cocoa as by far the most important foreign exchange earner¹ as illustrated by chart one.

Excluding products from the processing of cocoa and timber which together account for roughly 22 per cent of exports, less than 2 per cent of the total current exports consists of manufactured goods. The major items involved are chemicals and pharmaceutical products, processed foods, textiles, petroleum products and sundry miscellaneous manufactures. The low figure for manufactures despite Ghana's relatively high degree of industrialization is a reflection of the fact that industrialization has so far been geared towards imports substitution.

The nature of the import trade of Ghana during the last two decades could be summed up as one of a rising volume of imports in

1) The commercial policies in connexion with the cocoa industry are discussed in chapter VI.

TABLE III

EVOLUTION OF THE STRUCTURE OF TRADE (1953-1975)

EXPORTS (PERCENTAGE SHARE)

	1953	1955	1957	1959	1962	1965	1971	1972	1973	1974	1975
Cocoa beans and products	63	68	56	61	63	66	62.3	59	54.4	67.6	69.0
Timber (logs and sawn)	7	8	11	12	11	12	9.2	11.1	17.8	11.8	8.2
Manganese	10	5	10	6	5	4	1.9	1.7	1.0	1.3	1.8
Diamond	4	6	10	8	7	6	3.3	3.3	1.8	1.7	1.3
Gold	11	9	11	10	10	8	8.0	8.7	9.6	11.4	8.9
Aluminium	-	-	-	-	-	-	8.3	9.8	6.3	4.0	3.5
Other	5	4	2	3	4	3	7.0	6.4	9.1	2.8	7.2

IMPORTS BY END-USE (VALUE)
(PERCENTAGE SHARE)

	1953	1955	1957	1959	1962	1965	1971	1972	1973	1974	1975
Non-durable consumer goods	50	47	47	42	42	29	22	20	22	15.6	14.8
Durable consumer goods	9	10	9	8	6	5	6	4	10	4.1	5.5
Raw and semi-finished materials	22	24	24	26	28	32	39	39	37	41.2	41.0
Capital equipment	13	13	13	19	18	30	27	24	21	22.5	22.1
Fuel and lubricants	5	5	6	5	6	4	6	12	9	16.6	16.6

Sources : *Economic Surveys, (Central Bureau of Statistics) Accra.*

TABLE IV
TENTATIVE TERMS OF TRADE - GHANA 1954 - 1976

	1954-56	1970	1971	1972	1973	1974	1975	1976
Exports :								
Value	82	100	78	91	124	150	176	185
Unit Value	124	100	80	76	102	163	182	229
Quantum	66	100	98	119	122	92	96	81
Imports :								
Value	75	100	106	71	109	200	196	231
Unit Value	84	100	107	116	145	206	221	227
Quantum	89	100	99	61	75	97	89	102
Terms of trade	148	100	75	66	70	79	82	101
Purchasing Power ¹ of exports	98	100	73	79	85	73	79	81

1) Computed on the basis of export values and the unit value of imports.

Source : Handbook of International Trade and Development Statistics, Supplement 1977 : (UNCTAD, New-York - TD/STAT. 7).

the face of a relatively stagnant export economy¹. Imports which stood at C 115 million in 1950 had doubled to C 232 million in 1957 and continued to grow despite the appearance of a serious deficit in the early sixties which prompted the use of foreign exchange restrictions and import controls. Until the seventies a fall in imports in one year has usually tended to be followed by a vigorous rise in the next year. The first major trade surpluses since decades were registered in 1972 and 1973 ; exports of domestic products in 1972 and 1973 reached C 564 million and C 686 million respectively as against imports of C 393 million and C 525 respectively. One of the recent significant developments in the composition of imports has been the constant decrease in the share of consumer goods in the total import bill in favour of intermediate and capital goods. This reflects in part the high import intensiveness of Ghana's industrialization efforts, a point which has already been alluded to. This tendency is bound to continue as import substitution industrialization proceeds.

Table IV tries to trace from another angle the evolution of Ghana's external trade during the period under study especially between 1970 and 1976. It shows, on the basis of 1970 trade indices, that in comparison with the situation existing at the time of independence there was only a very modest growth in export value and only a fair growth in quantum of exports a picture which is also borne out in Chart I of this chapter. The situation after 1970 is revealing. Between 1971 and 1976 export values more than doubled while the quantum of export, with the exceptions of 1972 and 1973 has been in constant decline, reflecting the decline in cocoa exports. On the other hand export unit value has almost tripled between 1972 and 1976. These figures illustrate the fact that the improvement in export trade in the first half of the seventies has been almost exclusively due to the rise in commodity prices. Export production has been falling constantly.

The picture in the import sector is similar. The value of imports on the basis of 1970 indices has more than doubled between 1971 and 1976, however an even steeper rise in import unit values especially after the 1973 rise in petroleum prices has meant that in quantum terms imports in 1976 were at almost the level of 1970. The terms of trade index was in 1976 at the same level as at 1970, after falling throughout the period 1970-1975, but far below the level twenty years earlier in 1954-56 ; on the other hand the purchasing power of Ghana exports was in 1976 still below the level of 1970.

Direction of trade

Unlike the case with the composition of trade there has been a significant evolution in the direction of trade in the last two decades.

1) The rapid increase in the prices of Ghana's export commodities since 1972 gives the false picture of a high rate of growth in this sector, for production has been relatively stagnant or even declining especially in the case of cocoa, the main export product. On the other hand the high import figures during the same period reflect the high rate of inflation in the industrialized countries, and changes in the value of the major international trade currencies.

TABLE V

GHANA - AREA DISTRIBUTION OF EXPORTS

Destination	1956	1964	1970	1971	1972	1973	1974	1975
United Kingdom ¹	39.5	23.1	23.2	24.3	18.5	17.0	18.0	14.5
EEC	32.5	29.4	23.8	25.4	24.5	23.2*	26.8*	23.6*
Cent. Planned Econs.	2.4	11.8	16.2	6.8	14.3	13.1	14.5	16.2
North America	19.4	22.9	19.2	24.4	15.5	14.8	12.3	11.9
Africa	2.8	2.0	0.9	1.7	1.3	4.4	1.5	2.0
Japan	-	3.5	6.5	8.3	8.0	8.0	6.6	7.1
Others	3.4	7.3	10.2	9.1	17.8	19.5	20.3	24.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Excludes the figures for the United Kingdom which became a member of the EEC on 1 January 1973 but includes the figures for all the other eight members.

SOURCE OF IMPORTS

Exporting Zone	1956	1964	1970	1971	1972	1973	1974	1975
United Kingdom ¹	54.1	27.4	23.6	25.0	15.6	16.9	14.5	15.0
EEC	18.8	23.0	21.8	23.8	23.9	26.3*	24.5*	23.0*
Cent. Planned Econs.	2.0	15.8	8.5	6.1	7.5	5.9	11.3	4.4
North America	5.6	11.6	21.4	16.1	20.2	17.0	12.6	18.3
Africa	6.4	9.4	5.2	6.0	7.7	8.2	15.3	14.5
Japan	10.1	5.4	6.2	9.3	5.7	7.1	5.6	6.5
Others	2.9	6.8	12.8	12.9	18.8	18.2	15.7	17.9
Parcel post	-	0.6	0.5	0.8	0.6	0.4	0.4	0.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Excludes that for the United Kingdom but includes those for all the other eight members.

1) Although the figures for the United Kingdom (1956) cover the whole of the Sterling Area excluding African countries, they principally represent trade with the United Kingdom.

Source : *Central Bureau of Statistics, External Trade Statistics of Ghana, various issues.*

Central Bureau of Statistics, (Accra) Economic Surveys, 1967, 1969.

While the industrialized market economy countries still form the main market for Ghana's trade, the main trading partners are more diverse than before. There has been a significant decline in the position of Great Britain as the predominant trading partner; thus while in 1956 she supplied about 54 per cent of Ghana's imports this had declined to 27 by 1964 to around 24 per cent in 1970 and 15 per cent in 1975. Her intake of Ghana's exports declined from around 40 per cent in 1956 to around 23 per cent in 1964 and the same percentage in 1970 and roughly 14.5 per cent in 1975. The gainers have been the continental countries of Western Europe especially the EEC, United States, Japan and to a large extent the centrally planned economies of Eastern Europe and mainland China (see Table V).

Probably the most significant evolution in the direction of Ghana's trade since independence has been the emergence of the centrally planned countries of Eastern Europe and China as major trading markets. From an insignificant 2 per cent by the time of independence in 1957 their share of Ghana's imports had reached about 16 per cent in 1964 and the phenomenal figure of 26.3 per cent in 1965 since then this share had declined in a fluctuating manner down to around 8.5 per cent in 1970, 6 per cent in 1973 and 4.4 per cent in 1975. Their share of Ghana's export trade also reached a peak of 21.3 per cent in 1965 from a low of 2 per cent in 1956 and declined steadily to 16 per cent in 1970, it then dropped dramatically to 7 per cent in 1971; since then there has been a steady rise to around 16 per cent in 1975. The development of this market has been dictated as much by a conscious political policy of reorienting Ghana's trade along lines more in tune with her policies as a non-aligned country as by the economic necessity of expanding Ghana's export market. It was facilitated by a growing consumption in these countries of cocoa, by the increasing capital-equipment component in Ghana's total imports and by the special payments arrangements which formed the basis of the bilateral trade agreements with these countries which will be discussed in a later chapter. The other major development with regard to the direction of Ghana's trade has been the formation of the European (Economic Community) Common Market, which coincided with Ghana's attainment of independence in 1957. The formation of this powerful trading block and the free trade arrangement which grew up between it and the former African colonies of the member states meant that not only did Ghana's products competing with those of her neighbouring countries face tariff and other non-tariff barriers in entering this trading block but also that Ghana's manufactures entering the markets of her neighbours had to compete with duty free products from the Common Market. With the expansion of the EEC to include Great Britain and other European countries serious problems and issues arose with regard to Ghana's trading relation with a market which was handling at least 40-45 per cent of Ghana's trade. What kind of association with this trading block could fit in with Ghana's pattern of trade; her policies with regard to industrialization; her policies with regards to the development of her trade with other African countries associated with the EEC and with her wider international economic relationships especially within the

framework of the GATT and UNCTAD ? These are some of the issues which will be discussed in the ultimate chapter of this study.

The development of closer trading and general economic relationship with African states in general and with West African countries in particular has for a long time been an important element in the trade policy of Ghana, a policy dictated as much by political considerations as by economic factors. Ghana is already a major market for the livestock exports from Upper Volta, Mali and Niger and imports a variety of agricultural products and most of its petroleum products from other West African countries while exporting a variety of manufactured products to them. The various modalities and techniques for developing trade with these countries will be discussed in a later chapter.

THE BALANCE OF PAYMENTS AND COMMERCIAL POLICY

The performance of the Ghana's economy during the past decade and half has been highly influenced by a persistent deficit in her balance of payments¹. The history of the balance of payments falls into distinct phases. There was firstly the period of comfortable surpluses up to 1950, followed by a period of declining surpluses ending in 1955 ; then a period of large and increasing deficits from 1956 to 1961 leading to the imposition in that latter year of a wide range of import restrictions and exchange regulations ; the period since 1961 has witnessed a steadily worsening balance of payments occasioning tighter import and exchange controls and currency devaluations.

Ghana had enjoyed surpluses for a period well before the second world war and these surpluses increased in magnitude after the end of the war as a result of import restrictions, and shortages, cautious domestic policies and increases in the world cocoa price in the later 1940's and the early fifties. These surpluses went to increase Ghana's international reserves so that at the end of 1955 they stood at 208 million pounds sterling. Thereafter these declined to 149 million pounds sterling by the end of 1960, were halved in the course of 1961 and at the end of 1962 stood at 72 million pounds sterling. The accumulation of reserves in the early fifties could be explained by two factors. In the first place, there were physical difficulties in the

1) The balance of payments problem of Ghana is probably one of the most exhaustively studied in the developing world and there is no lack of literature on it. The earliest serious study appeared in No. 2 and 3 of Volum VI of the Economic Bulletin of Ghana 1962 (published by the Economic Society of Ghana). This study was broadened in "A Study of Contemporary Ghana" - edited by Birmingham, Neustadt and Omaboe (George Allen and Unwin Ltd 1966). For a recent study of some aspects of the problem, see "Balance of Payments Constraint and Economic Development in Ghana" - by J.E.A. Manu (The Economic Bulletin of Ghana - Second Series, Vol. 2, No. 4, 1972) and also J.C. Leith, op. cit. For a general study of Ghana's economy up till 1972, see : Development Economics in Action - A study of Economic Policies in Ghana - Tony Killick (Heinemann Educational Books Ltd London 1978).

way of expanding imports and the disinflationary policies pursued at home which restricted the level of purchasing power and permitted only a modest rate of capital accumulation. The second factor was a publicly announced policy in favour of building up reserves as the size of the current account surpluses began to decline in the first year of the 1950's. In the Economic Survey of 1954 there was attention drawn to the need for maintaining or increasing the volume of exports. As imports increased and exports practically stagnated the downward trend in the balance of payments continued throughout the fifties with the exception of 1954 when the price of cocoa reached 550 pounds sterling per ton, the highest point it had ever reached at that time. The increase in imports over the period was due mainly to the government development programme and partly to growth in income. As table III shows, durable and non-durable consumer imports accounted in 1953 for 59 per cent of total imports and as high as 50 per cent in 1959, although this reflected a decline in favour of capital equipment. Another factor accounting for the high consumer imports was the relatively liberal trade policy, a legacy of the colonial past.

The causes of the stagnation in the volume of exports which is alluded to above are both long and short term in nature. Firstly there has been a failure, as a policy, to diversify agricultural export production, a failure to which attention has been drawn as far back as 1919 by the then head of the colonial government Governor Guggisberg in an address to the Legislative council. The economic depression of the inter-war years and the dramatic fall in cocoa prices did not encourage expansion in agricultural export production. A fundamental factor was the development strategy adopted by the early Nkrumah government which laid overwhelming emphasis on social and economic infrastructure to the detriment of the directly productive sectors. In the 1951 ten-year development plan only 16.9 per cent of the total development fund was allocated to "economic and productive services" including agriculture, 14.8 per cent to common services and general administration, and the remaining 68.4 per cent to social and economic infrastructure. The same strategy was reflected in the Second Five-Year and Consolidation Plans of the post independence era. In the Seven-Year development plan of 1963 in which 37.3 per cent of total development fund was allocated to agriculture and industry the emphasis was finally shifted from infra-structural to directly productive activities; although none of these Plans saw its fullterm implementation, the tendencies were clear and the structure of export production hardly changed since then. However so long as surpluses continued to be registered though in a declining trend and reserves continue to build up reaching its peak in 1955, the call for a limit to increase in expenditure on consumer goods, remained unheeded. In 1956 a substantial deficit in the balance of payments appeared for the first time and although a surplus was registered in 1959, a persistent deficit became the trend. To arrest the deterioration in the balance of payment situation, the 1961 budget increased the duties over a wide range of commodities and further imposed heavy pur-

chase taxes on consumer durables. These taxes on imports¹ had an initial success in slashing down imports but since they were not simultaneously accompanied by a decrease in government expenditure, one of the main determinants of imports, (the others being private investment and payments to cocoa growers) they did not have the expected impact on the balance of payments and the deficits showed up again towards the end of 1961. Consequently in December 1961 the government resorted to a policy of import restrictions and exchange controls. Meanwhile the run on the external reserves had been such that by 1961 their level stood at 73.7 million pounds sterling as compared with 208 million in 1955. Even then this represented 40 per cent of the value of imports in 1961, a figure which compared favourably with 46 per cent for Britain and US and 53 per cent for the world as a whole (at the end of 1960)². However as the payment deficits persisted and the reserve situation worsened external loan financing was increasingly resorted to so that by 1966 a huge external debt had been accumulated. This will be analysed later in this chapter.

As has already been pointed out, the fundamental cause of the balance of payment problem has been the imposition of a level of imports completely out of balance with the country's export capacity. And as has also been fully brought out by Nypan³ as far back as 1960, Ghana's marginal propensity to import has been substantially above the marginal propensity of her trading partners to import goods from Ghana. A rapid pace of economic development which often means a heavy importation of capital goods especially for infra-structural development is one of the fundamental causes of the high propensity to import in developing countries. In Ghana this situation has been aggravated by two related factors. There was firstly the policy of import substituting industrialization which has been highly import intensive in respect of capital goods and raw materials. Imports of raw materials and semi-manufactures have been claiming an increasing share of total imports since the early fifties (see Table III). The other factor has been the high proportion of consumer goods import. This fact was established as far back as 1953 in a study by Yates⁴, and another study by the E.C.A.⁵ showed that in 1959 Ghana's imports of food beverages, tobacco and textiles were proportionately the third highest of all African countries. Thus this trend had already been set under the colonial government presumably, because colonial governments gave lower priority to economic development which would have necessitated large capital good imports. Not only

1) These import taxation measures, naturally had a secondary revenue purpose.

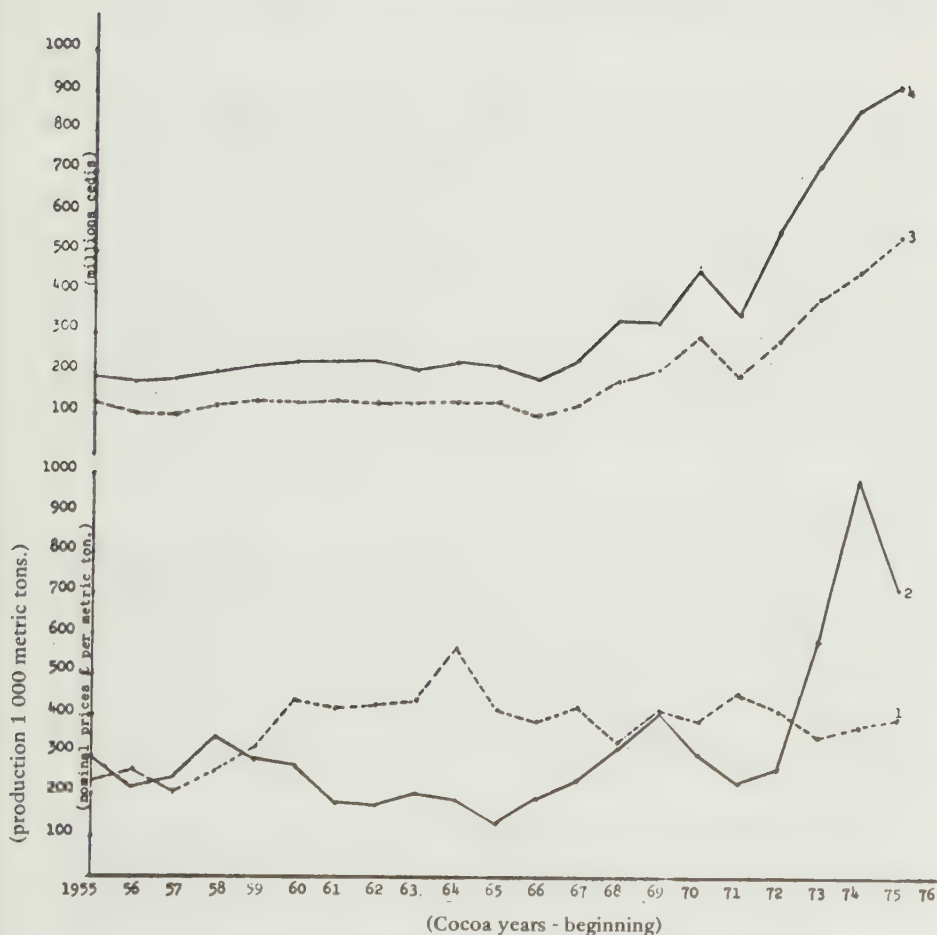
2) Ghana Economic Survey (1960), para 364.

3) See E. NYPAN " Demand for Imports in Ghana and Demand for Ghana's Products in other Countries ", (Ghana Economy Bulletin - January 1960).

4) Larmantine Yates " Forty Years of Trade ", pp. 196-7.

5) E.C.A. Economic Bulletin for Africa - June 1961. (Annex of African Statistics).

CHART I
Cocoa in the Export Economy of Ghana



Key :

- 1) Ghana cocoa production (in thousand metric tons)
- 2) Spot Price Ghana / London (£ per metric ton)
- 3) Ghana total cocoa export earnings (in million cedis)
- 4) Total Ghana export earnings (in million cedis)

Sources : *Bulletins of the International Cocoa Organization.*

did this trend in consumer imports continue after independence despite the greater emphasis on development but was accentuated by the excessive internal monetary expansion and excess domestic demand originating largely in the public sector. The stagnation in agricultural production lay at the root of the growth in the importation of foodstuffs. The growing pressures of public and private consumption on rather limited domestic productive capacities not only led to external disequilibrium but at the same time to galloping inflation, which became aggravated with the imposition of exchange and physical import controls.

Chart one tries to sum up the external economic situation by illustrating the importance of cocoa in the export economy of Ghana and thus the influence of external factors such as fluctuation in world prices on the determination of commercial policies. The correlation between the stagnation in the level of cocoa earnings and the country's general export earnings especially between 1955 and 1965 is clearly brought out. 1961, which saw cocoa prices and cocoa earnings at one of their lowest levels also witnessed not only the beginning of the imposition of import controls but also the conclusion of bilateral trade agreements with Centrally Planned Economy countries as the balance of payments worsened. The chart further shows two periods of falling cocoa prices and declining cocoa and general export earnings in 1965 and 1971 which resulted in balance of payments crisis and in their turn provoked serious political and economic changes.

THE EXTERNAL DEBT PROBLEM¹

Since it was first revealed in 1966 after the fall of the Nkrumah government, the external debt situation has become a permanent feature of the economic situation in Ghana. In short the external indebtedness can be regarded as the result of and at the same time a contributory factor to deterioration of the balance-of-payments situation which began in the early 1960's. The total debt which at the end of December 1973 stood at 720 (SDRs) could be broken up into three main types, the short-term debt², medium-term suppliers' credits and long-term debts.

The short-term external obligations were of four distinct kinds, a) interbank loans, b) import credits obtained by the private and public sectors, c) arrears on payments of matured credits and other current payments, and d) the backlog of profits and dividend remit-

1) For a general discussion of the debt problem of developing countries, see UN Journal of Development Planning, No 9 (1976) ; also " Debt Problems of Developing Countries : Report of the ad hoc Group of Governmental Experts on its Third Session (UN Publication, Sales No E.75.11.D.14).

2) Short-term in respect of obligations originally due to be repaid in less than one year, medium-term mostly in respect of suppliers' credits with an original maturity of 1-12 years and long-term with maturities over 12 years.

TABLE VI

GHANA : EXTERNAL DEBT OUTSTANDING ON DECEMBER 31, 1973

(In millions of SDRs¹ and per cent)

Type of debt	Amount	Per cent
Short-term debt	167	23
Outstanding import bills	22	3
Current payments arrears	87	12
Backlog of profit and dividend remittances	57	8
Medium-term suppliers' credits ²	259	36
Pre-1966 suppliers' credits	248	34
Post-1966 suppliers' credits	11	2
Long-term debt ³	295	41
Bilateral loans	207	29
World Bank Group	87	12
Total indebtedness	720	100

Sources : Information provided by the Ghanaian authorities ; and World Bank estimates, in " World Debt Tables " Vol. 1 - World Bank document EC.167/75.

1) Converted from U.S. dollars to SDRs at the prevailing rate in force after December 31, 1973, i.e. US\$ 1.00 : SDR 0.8333.

2) Includes obligations which may be cancelled under the term of the 1974 debt agreement.

3) Including undisbursed.

tances arising from delays in the processing of applications at the Bank of Ghana. Import credits became a feature of the country's indebtedness from 1965 when the then government, faced with a critical balance-of-payments situation and a low level of reserves introduced, as one of a number of emergency measures, a mandatory 180-day import credit requirements¹. This measure had two unfortunate effects on the external payments situation. Firstly the system involved certain expenses for suppliers who mostly passed these on to Ghana by raising the price of their goods. The cost to suppliers included the additional discount on trade bills of longer maturity than would otherwise be extended and the inconvenience resulting from the recurrence of arrears which was associated with the system. Secondly it complicated the managements of the balance-of-payments. By increasing the time-tag before a deterioration or an improvement in the balance-of-payments could be reflected in the reserve position, it made it difficult for the authorities to act promptly or effectively at the right time. The mandatory nature of the system was removed in February 1972.

The medium-term debt was the most controversial. The first official suppliers' credits were negotiated in 1959, and by the end of 1961 the principal amount outstanding in respect of such credits had risen to SDR 69 million and by June 1966 it amounted to SDR 470 million which reflects the speed with which the debt was incurred. What was particularly pernicious about the suppliers' credits was that not only were the interest rates high but their duration was short with the result that roughly nine-tenths of the repayments of principal and interest due under the original schedules were payable over the 6 years 1966-71, resulting in average debt services obligations of SDR 80-85 million for 1966-68 and SDR 42-47 million for 1969-71, 29 and 11 per cent respectively of the total export earnings for the periods in question. Many of the plants financed by these credits were well meant import-substitution projects which were supposed to pay their way through saving on imports by the time repayment was due, but this in many cases proved to be an over optimistic assessment in view of the numerous problems which beset infant industries in developing economies², necessitating among other things longer gestation periods. Many others of the projects were ill-conceived, and badly prepared, the result of fast-talking by unscrupulous foreign entrepreneurs aided and abetted by corrupt³ politicians and officials.

The long-term debt has been perhaps the least onerous. Prior to 1966 the principal long-term debt consisted of loans to finance the Volta River Project and some loans from countries of the Council

1) This was first instituted in March 1965.

2) It was generally known that some politicians and officials obtained as "bribes" a certain percentage of the value of contracts awarded to contractors and suppliers. These amounts went invaluable to inflate the nominal value of the contracts.

3) Some of these problems are discussed in this chapter and in chapter V.

for Mutual Economic Assistance (CMEA). In 1966 long-term debts amounted to SDR 93 million about 19 per cent of the total debt situation ; by the end of 1972 other obligations have increased this to SDR 295 about 40 per cent of the total debt, a result of a deliberate policy of relying less and less on short and medium loans.

The acquisition of external financing in the form of loans for the purposes of development cannot be condemned *a priori* as a bad policy if the debt is well composed, well utilized and managed. If however, like in the case of Ghana they are predominantly of short and medium obligations acquired in a period of relative stagnation in export growth and used partly in promoting consumer imports as was in the case of the import credits or for financing ill-conceived and unprofitable ventures as was the case with many of the suppliers' credits, the result is a situation in which debt servicing imposes a heavy burden on the external payments position and the country's import capacity.

The debt-service ratio¹ of Ghana was 7.2 per cent in 1967, 10.6 per cent in 1968 and 3.2 per cent in 1975. The debt service ratio is by itself an incomplete and inadequate indicator of a country's debt situation and international comparisons of debt service ratios have only limited meaning. Many other factors must also be considered, such as the stability and diversification of the country's export structure, the prospects for future growth, the extent to which imports can be reduced without adversely affecting current production, the time profile of the country's debt outstanding, and the size of foreign exchange reserves and available compensatory financing facilities. Where the burden of debt servicing becomes too heavy most developing countries seek accommodation through re-scheduling² agreements with the creditor countries. Re-scheduling of debts often only tend

1) Debt service ratio is defined as service payments on external debt as percentage of exports of goods and services. Debt service ratios are based on debt service actually paid as reported by the countries and not on contractual debt service due. If a country did not pay the entire debt service due during a year - this may be reflected in a lower debt service ratio than would have been the case if contractual debt service had been used in computing the ratio.

2) Ghana's debt have been re-scheduled a number of times ; the first took place in 1966 soon after the overthrow of the Nkrumah government. It was followed in 1968 by another exercise and the third one took place in 1970. Another re-scheduling meeting was to have been held in mid-1972 however in January 1972 the Busia government was in turn overthrown and the new government, in a new policy approach to the debt problem declared its intention to cancel unilaterally certain contracts which it considered to have been vitiated by corruption, fraud or other illegality. One of the immediate consequences of this move was that some of the major creditor countries decided to cut off export credit facilities in trade with Ghana. The creditor countries eventually invited the World Bank to lend its good offices in arranging negotiations with Ghana. After a number of meetings an " Agreed Minute " was signed on 13 March 1974, which among other things rescheduled the debt repayment in much more favourable terms than before.

to postpone the day of reckoning or aggravate the situation¹. While good debt management is essential where external financing is being used the basic answer to the debt problems is the pursuit of policies aimed at increasing the foreign exchange earning capacity of developing countries.

APPROACHES TO THE SOLUTION OF THE BALANCE OF PAYMENTS PROBLEM OF GHANA

As has already been pointed out the current balance of payments problems of Ghana are on the one hand, a reflection of the development effort, and the result of an overexpansion of domestic demand, and on the other hand a low capability for increased export earnings. Basic to any fundamental solution should be structural changes that would reduce dependence on imports; but more positively, measures should be taken to strengthen the export economy in such a way as to accommodate the growth in imports which the high rate of development and the low domestic productive capacity render inevitable. Such a change can only be accomplished over a long period and appropriate short-term measures are necessary in order to bridge over the time lag. These measures as pointed out in chapter one are available in the fields of monetary, fiscal, financial and commercial policies. In order to dampen domestic consumer demand, a tighter control on government budgetary expenditure as well as on monetary supply is needed. Such a policy however often gives rise to strong apparent conflict between the policy objectives of stability on the one hand and growth and full employment on the other hand. The series of currency devaluations in 1967 and 1971 have been aimed more at controlling imports and at reducing purchasing power and hence effective demand rather than encouraging exports, in view of the nature of Ghana's exports. In the short and medium terms the management of Ghana's external debt is bound to remain an important element in her external economy in as far as the annual payments on these debts constitute serious burden on foreign exchange and therefore a restraint on the ability to import. The main commercial policy instruments which have been employed in Ghana in the face of the persistent balance of payments deficits have been quantitative restrictions, customs duties, and import surcharges. The promotion of the export of manufactures through commercial policy instruments is a very recent attempt; production and export subsidies, better export credit facilities export bonus schemes and better utilization of export promotion techniques and organization have been some of the main measures adopted. These measures will be studied in greater detail in later chapters. The long term objectives should be a greater degree of agricultural diversification and more export oriented industrialization.

1) It has been estimated that total external debt obligations increased by 39 per cent after the re-scheduling of Ghana's debts in 1968, due to the levy of moratorium interest of 6.5 per cent.

OTHER DETERMINING FACTORS IN ECONOMIC POLICY FORMULATION

Socio-political factors

A study of the socio-political forces at work during the period under consideration is also essential for an understanding of some of the commercial policy decisions and issues. This period which spans the latter years of the pre-independence political struggle and the early decades of independence is fraught with major socio-political changes. Economic forces played a decisive role in the independence movement from its very beginning; for one of the very first act of political protest at the beginning phase of the movement was a trade boycott organized by an Accra businessman against what he considered as unfair trade practices by the Association of West African Merchants (AWAM)¹. The "market women"² who were and are still dominant in the lower retailing sector played an important role in the trade boycott. Thus the indigenous business community was a force which the government could not ignore; it offered its support financially and otherwise to the CPP government and in turn benefited from party patronage. The Ghanaian trader who has so far limited his activities to retailing and agency representation, was given financial and other encouragement to participate in the importing trade hitherto completely in the hands of foreign firms and the Indian and Levantine communities, which were eventually to be practically eliminated to give way to the Ghanaian³. The rush of Ghanaians into the importing trade was later to cause a nightmare to successive governments in their attempt to control imports. However, by the

1) The major European trading firms operating in the former British West Africa formed themselves into the Association of West African Merchants (AWAM). The oligopolistic position held by the AWAM in the importing trade caused such concern after the Second World War that the Colonial office asked Proff. P.T. Bauer to undertake a study the trading situation in the region. His book "West African Trade" provides a broad and detailed picture of the feeling among African and British colonial officials that Africans were not getting a fair deal. (See P.T. BAUER, *West African Trade* (C.U.P. 1954, re-issued 1963). The picture which comes out of Bauer's study is that of a group of foreign companies collaborating closely among themselves and often with the connivance of official policies, to monopolize the import trade, prevent the participation of new entrants and control the commodity export trade. The study found enough proof to support the general charges made against them of practicing market rigging, profiteering and, creating monopolistic scarcities.

2) This a colloquial term used in Ghana to describe the women petty traders who are very dominant in the retailing trade both in domestic and imported goods. While their role has been of utmost importance in the distributive trade they have often been accused of engaging in hoarding, creating artificial scarcities and in excessive profiteering, thus sometimes negating the governments importing programme. As the availability or not of certain commodities such as soap, sugar, milk on the market has come to be considered as the barometers of the state of the economy, the "market woman" has acquired a role of political importance. This role has often been reinforced by their acquisition of political patronage in exchange for their contribution to the financing of political parties, or through bribery.

3) One of the reasons evoked for the action for the action taken against the Levantine and Indian traders was that they indulged in bribery and corrupt practices especially the acquisition and utilization of import licenses. But as will be amply shown in Chapter IV their elimination has not ended these practices, on the contrary the Ghanaian trader enjoying political patronage has become a worse offender.

end of the fifties the CPP government was reconsidering its policy of encouraging Ghanaian private enterprise, for it was becoming evident that Nkrumah was afraid that the growth of a wealthy, middle-class Ghanaian business community might eventually constitute a danger to the authority of the CPP¹. Such a development was also considered by him to be contrary to his socialist philosophy. These were some of the factors behind the decision to engage the state directly in trading which led in 1961 to the creation of the Ghana National Trading Corporation. Even of greater importance than the business community is the presence of a large cocoa farming community whose political support or control is vital for the survival of the government. Without such a support or control no government could successfully implement its cocoa policies especially with regard to cocoa export taxation, vital as a source of government revenue. Successive governments have been able to do this either by directly organizing² the farmers, or by using the influence of the traditional rulers.

The main socio-political factors which influenced commercial policies during the period spanning Nkrumah's stay in power could be summed-up as follows ; a rabid nationalism which sought to diminish the role of the foreigner in the Ghanaian business and economic life without due regard to the negative effect on efficiency and welfare ; the development of a Ghanaian middle class business community at first encouraged by the CPP government but later to become a victim to the government's anti-big business outlook, and an ill-defined Marxist-socialist ideology which internally led to an increasing state encroachment on and direct participation in economic life, and externally led to a diversion of part of the country's trade from the market-economy to the centrally-planned economy countries. The effects of all these on the Ghanaian economic life were both short and long-term. They often led to the creation of a climate of confusion and uncertainty which discouraged the inflow of foreign capital, to a growing dependence on suppliers credit and the accumulation of an unmanageable external debt. The climate of uncertainty and discouragement was naturally aggravated by the measures of import and exchange controls which the government was obliged to resort to as the balance-of-payment situation began to worsen. The encroachment of the state on business life and the misuse of party patronage in business retarded the development of a genuine indigenous entrepreneurship the absence of which is a major drawback in the development process.

The overthrow of the Nkrumah government in February 1966 did not lead to complete break with his policies. The participation of the State in economic and business life has been maintained by

1) For a discussion of these issues, see P.C. GARLICK, " African Traders and Economic Development in Ghana - OUP 1971, Chapters IX and X.

2) For a comprehensive study of this, see " Organizing the Farmers " by Bjorn Beckman (Scandinavian Institute of African Studies, Uppsala 1977). See also Tony Killick, *op. cit.*

successive governments although in more clearly defined sectors¹ and the same could be said of the participation of foreign enterprise. In a more negative tone it may be pointed out that even the coming into power of the rather liberal Busia government in September 1969 did not end the tendency to accuse the foreigner for the countries economic problems. Thus on the pretext of fighting unemployment and encouraging Ghanaian business, the Ghanaian Business Promotion Act 1970 (Act 334) further narrowed the sectors opened to the foreigner and led eventually to the repatriation of hundreds of thousands of African aliens² to neighbouring African countries. Apart from the unfavourable international repercussion of this move, it led to a short-term disruption of labour supply in certain sectors of the economy³, especially cocoa farming, and to the virtual disappearance of the small diamond diggers most of whom were aliens and at one time accounted for over 50 per cent of the total diamond production. A long-term effect of Nkrumah's policy of state intervention in business has been the creation of a mixed economy, with state monopolies⁴ and enterprises operating side-by-side private enterprise and the state often participating in joint ventures with the private sectors. This development has both its advantages and disadvantages some of which will be discussed in Chapter VII; it may be claimed that it may have helped in avoiding some of the political tensions discernible in many developing countries where a few foreign transnational corporations have come to dominate vital sectors of the economy.

Role of the private sector

In spite of the above discussion it must be emphasized that the Ghanaian economy is predominantly a private enterprise economy.

1) See a) The Promotion of Ghanaian Business Enterprises Decree (Decree 323) of 1968 under the National Liberation Council; b) The Ghanaian Business Promotion Act 1970 (Act 334) under the Busia government which repealed the NLC decree. The Business Promotion Act (1970) has in turn been superseded by the Investment Policy Decree - 1975 (Indigenisation Decree) which set ₵ 500,000 as the minimum volume of transaction which qualifies a foreign enterprise to operate in Ghana and excludes foreigners from various activities such as taxi service, bakery, brokerage, agency, etc...

2) The Business Promotion Act had been preceded by the Aliens Compliance Order of 19 November 1969 requiring all aliens without residence permits to leave Ghana within two weeks. As usual the alien was accused of indulging in smuggling, contraband and illegal currency dealings; in actual fact his main crime was having been too hardworking and successful. In fairness to the Busia government it must be pointed out that the process of controlling the aliens in Ghana has begun as far back as 1963 with the Aliens Act (60) 1963, and the Aliens (Amendments) Act 1965.

3) For a study of the effect of the Aliens Compliance Order on cocoa farming see The Economic Bulletin of Ghana 1972, Vol. 2, No. 4, p. 33-49 (Published by the economic Society of Ghana). Again, in fairness to the Busia and other Ghanaian governments it must be pointed out that the use of immigration policies as an instrument of economic control was even practiced in the colonial era. As Bauer found out, it was used by the Authorities to keep out new entrants into the import and export trade monopolised at that time by the AWAM. (See West African Trade, op. cit., p. 156-171).

4) The process began with the establishment of the Cocoa Marketing Board in 1947 with exclusive rights in the external marketing of cocoa.

It has been estimated that in 1972 approximately 85 per cent of the GNP was accounted for by the private sector¹. Agriculture is predominantly in the hands of the private sector with the exception of the marketing and distribution aspects. Apart from the extraction of timber and a few plantations the participation of foreign enterprise in this sector is insignificant. This is however not the case in the mining and manufacture sectors ; where the former is shared almost equally between the state and foreign private enterprises. After about 25 years of state participation, the industrial manufacturing sector is about 75 per cent privately owned or jointly with the State. The importing and distributive trades are also dominated by the private sector despite the existence of a large state owned trade corporation. In this sector small and medium size indigenous firms co-exist with foreign enterprise ranging from the medium size individual firms to transnational companies. But this co-existence has not been an easy one and state enterprises which were often the least efficient, enjoyed preferential treatment in the allocation of import licenses at the expense of the more efficient private enterprises. Foreign enterprises have often been made the scapegoat for problems facing the economy, and accused of corrupt practices especially with regard to importing and invoicing.

CONCLUDING REMARKS

The pictures one gets from the Ghanaian economy and its performance over the two decades covered by his study is that of an economy possessing most of the negative characteristics one can associate with a poorly managed developing economy ; a “ mono-cultural ” export economy dominated by the cultivation and export of cocoa and its products, and a dismal failure to diversify agricultural exports ; a rush into import substitution industrialization of a population not possessing the necessary technical know-how and managerial competence and a neglect of the traditional agricultural sector resulting in a misallocation of resources in the former case and a fall-back in food production and a consequential inflationary spiral in local food prices in the latter. Over ambitious, ill-conceived and inefficiently implemented development plans coupled with a high propensity for consumer imports on the one hand and a stagnant export economy on the other resulted in persistent balance of payments deficits and a recourse to quantitative import restrictions, exchange controls and the indiscriminate use of external credits. The result of all this was that for most of the period under study the economy stagnated and negative growth rates were often recorded, resulting in reduced standards of living. This should not imply that all was a failure. The country became endowed with one of the finest social and economic infrastructures in Africa. Despite its failures, inefficiencies and problems some of which can be considered as “ teething pains ” the

1) Ghana Economic Review 1972-73 (Editorial and Publishing Services - Accra), p. 27.

foundations of industrialization have been laid and with it a rise in the level of technological development.

The following chapters will be devoted to a discussion of some of the policy issues involved in this chapter. In specific terms they will be devoted to a study of the commercial policy implications of the attempts to increase the competitiveness of the country's traditional exports on the world market and maximize their earnings; to diversify the export economy away from a stagnant to a dynamic commodity pattern ; to render more efficient the industrialization process ; to expand her markets ; and have a more active involvement in multi-lateral commercial diplomacy.

Chapter III

TARIFF POLICIES

INTRODUCTION

HISTORICAL EVOLUTION OF GHANA'S TARIFFS SYSTEM

General features of the colonial tariff system

Import and export duties have since a long time constituted the principal sources of fiscal revenue in Ghana ; in the case of the former its imposition is almost simultaneous with Ghana's involvement in modern international trade dating back to the end of the XIXth century. At the turn of the present century the import duties on spirits, mostly rum, provided most of the revenue from import duties, however as the century progressed and Ghana's external trade grew in volume and product composition, the incidence of the duties became progressively widely based.

However as late as 1948, as the schedule of customs duties showed, over half of Ghana's imports entered duty free. Duties were levied on both specific and ad valorem basis and ranged approximately between 15 per cent and 100 per cent ; specific duties were assessed extensively on foodstuffs, beverages, fuels and textile products.

The colonial tariff system of Ghana was in the form of a non discriminatory single column schedule with no country including the metropolitan power enjoying any special preferences.

An analysis of the tariff schedule shows that while food items and clothing regarded as relatively essential items attracted the lowest range of duties, alcoholic beverages and tobacco products and luxury goods attracted duty rates of around 100 per cent. Apart from imports destined for use by governmental institutions, the armed forces, benevolent societies and institutions as well as religious institutions the long list of exempted products included machinery and appliances as well as accessories, building materials, fishing and agricultural instruments ; medical preparations and drugs, as well as fungicides, insecticides and manures ; vehicles of all descriptions, miscellaneous

food items including infant foods, etc... As a concession to intra-African trade West African raw foodstuffs were also admitted duty free. This relatively liberal tariff regime meant in effect a considerable loss to the country in import revenue. As it was not part of the policy of the colonial power to promote local industrialization, there were no industries to be protected by the tariff system; on the other hand the exemption of capital goods must have had the anti-inflationary effect of keeping down production and development costs. It is however claimed that by promoting the consumption of imported goods the liberal colonial tariff policy made the future control of imports a more difficult exercise as tastes and habits became engrained.

Evolution of the structure and policies after independence

At the time of the attainment of independence in 1957 the nature and structure of Ghana tariffs were practically the same as in 1948 with only minor changes in tariff rates. The first real change in the structure of tariffs took place in 1966¹ when Ghana introduced, side by side the old system, a new schedule with product classification based on the Brussels Tariff Nomenclature. This change also meant a considerable reduction in the exemption list.

In August, 1971 a Customs Amendment Act² was passed which paved the way for an eventual introduction of preferential duties into the Ghanaian tariff system for the first time. The immediate reason for this was to enable the Government to implement the results of the trade co-operation agreement being negotiated between Ghana and the Ivory Coast. As the Minister of Finance explained, the bill was aimed at introducing an element of flexibility into the Ghanaian tariff system and at furnishing the Government with an instrument for tariff bargaining and commercial negotiations. Another clause of the Bill at the same time, did away with the exemption of

1) For the enabling law; see the Customs and Excise Tariff Act 1966 (Act 318) of 22nd February, 1966.

2) "First of all, it is proposed to establish in this country the Customs and Excise law as practised in many other countries, and secondly the rates of duty, one applicable to countries which grant favourable treatment to the exports of Ghana and the other one applicable to countries which grant unfavourable tariff treatment to the exports of Ghana. These are rates under established international law to conform with the regulations under the General Agreement on Tariff and Trade. The absence of this weapon in our hands has brought certain difficulties in the past. First of all it has been difficult to make meaningful mutual tariff agreements with other countries, and secondly it has been the case that some countries have taken advantage to discriminate against our exports without fear of any external action on our behalf. Henceforth, therefore there shall be applied to the exports of all countries which do not raise new tariff discrimination against Ghana, the rate of duty to be found as preferential rate which shall be equivalent to the present rate of duty in force. But if any country raises a preferential tariff treatment against Ghana then exports from that country entering Ghana will be subjected to a rate of duty which will be at level higher than the normal preferential duties..." (Parliamentary Debates - Official Report - Second Series, Vol. 8, No 8 - 2nd August, 1971, pp. 352-353. According to the Customs Amendment Act, tariff duties and surcharges levied on imports may be increased by up to 50 per cent by the Ghana government against products imported from any country which imposes discriminatory measures against any Ghanaian export product.

Government Departments and statutory corporations from the liability of paying duties on their imports. As the Minister explained it was a disciplinary measure aimed at curbing the tendencies of these institutions to import products in preference to domestic ones. No preferential tariff system was established since the negotiations with the Ivory Coast did not lead to a tariff arrangement.

The year 1961 was a landmark in the development of the country's import policies, for as the balance of payments deficit worsened the government took the first remedial actions by tightening the tariff system. For the first time tariffs were used purposely to control imports. The list of dutiable goods was extended and there was an upward revision of duties on a number of goods. This policy was clearly stated by the then Minister of Finance who declared a definite preference for the use of tariffs over physical controls.

“ I do not believe that the imposition of quantitative import controls will serve our objectives ; such controls are expensive in terms of manpower, and often lead to corrupt practices which we must avoid at all costs. I have therefore decided on the only method which had proved satisfactory - by tariff control ”¹.

As has already been pointed out in chapter II, by the end of 1961 the policy of controlling imports through tariffs had been reversed in favour of quantitative controls for although the tariff initially slowed down consumer imports, this was negated by the absence of controls on government expenditure. The net effect of these and other measures was the restoration of a positive balance of trade in 1962, a positive trade balance which was unfortunately nullified by a deficit on other current accounts. The positive trade balance could not be sustained in the following years as imports continued at a high level and export stagnated. As the situation worsened year after year the government was obliged to effect successive upward revision of tariffs. With the simultaneous imposition of quantitative import restrictions it was however apparent that duties were playing the role more as a source of revenue than as a controller of imports. After the political changes in 1966 the new government acted to remedy the extreme scarcity of certain imported commodities and the high prices by reducing duties on various items of general consumption such as motor fuel, fish, meat, edible oils, matches, salt, sugar, etc... while at the same time increasing duties on motor vehicles, (excluding commercial vehicles). In the 1967/68 budget duties were further reduced substantially on those products which were being considered as “ essential commodities ”.

In late 1969 the military regime which took over power in 1966 handed over the reins of government to a newly elected civilian government and this brought about a definite policy change with regard to Ghana's import regime. Faced with quantitative controls

1) Parliamentary Debates, Vol. 24 No 4, July 7, 1961 col. 121.

fraught with corruption and inefficiency, the new government decided to rely more on the price mechanism as a means of control and to liberalize import controls. The introduction of temporary surcharges¹ early in 1969 and reformed in 1970 was the first step in this direction. Along with the introduction of the surcharges, an important change was introduced in the tariff system by the abolition in August 1970 of a number of concessionary rates of duty.

In a move aimed at rationalizing the structure of the tariff system the military government which took over power in January 1972 introduced some reforms in its first budget of September of the same year. It was decided to group imports into three main categories. The first category consisted of commodities such as food items, agricultural machines and implements, seeds, spare parts, plant fertilizers and other agricultural inputs. The second category comprised raw materials, chemical, pharmaceuticals and building materials for low cost housing. The third category which carried the highest duties comprised finished goods and machinery. The reasons for the high duties on these goods as stated by the Head of State² was to "encourage locally produced articles and to ensure that those who demand finished goods and machinery will pay higher tariffs". In addition importers of finished goods and machinery were to be required to pay fees as high as 7.5 per cent on the face value of the import licences issued to them.

In the course of 1973 a newly re-structured import taxation system was introduced³, the main objective of which was to improve its efficiency as a source of government revenue. "Under the new measures import taxes will be used primarily to achieve one of the two objectives for which such taxes are normally applied, namely for the purpose of bringing in revenue to support Government's development programme. The restructuring of imports to conform to Government's economic policy and the restraining of imports generally should be carried out through direct control over imports through import licensing".

The reform, as emphasized above, also reflected the definite choice of the government in favour of physical controls vis-à-vis tariffs as an instrument for managing imports. The reform exercise could be summed up as one of harmonization and streamlining, with a view to effecting ease of calculation and of collection and stemming tax eva-

1) The surcharges had a secondary purpose of serving as an additional source of government revenue. As Ghana's balance of payments problem was a fundamental one and the surcharge tended to become a permanent feature it implied the use of an essentially temporary measure to solve a problem of a long-term nature. What would have been rational in this particular context was a radical restructuring of the tariff regime. As it was, the surcharge remained until it was abolished in 1973.

2) Statement by Col. I.K. Acheampong introducing the "Economic Measures for Financial Year 1973-74" - 30 August 1973.

3) Ibidem.

sion. In order to remove the wide differences in rates of duties within commodity groups and simplify the import taxation structure, sales taxes were abolished or rather merged with import duties so that goods could be subjected to only one duty at ports. The range of duties was narrowed down from 5-150 per cent to 20-50 per cent, in addition to goods to be admitted duty free; the previously highly differential tariff structure has been denounced as being conducive to duty evasion. In case where the drop in duties was very steep, and in order to avert a substantial loss of government revenue, an additional import licence levy was introduced, where the articles concerned were considered as luxury consumer goods. The levy also affected goods exempt from sales tax and import duties.

The new structure of tariff while affording a modest protection to local industries left a margin for competition from imports and an incentive to production efficiency. The abolition of the sales tax reduced the administrative cumbersomeness of the import taxation system and the inconvenience to which importers were often subjected. While the removal of the wide differences in rates of duties within commodity groups can be considered as conducive to the harmonization of the tariff structure, the previously highly differentiated tariff structure could, however, hardly be blamed for tax evasion for which it was often criticized¹. On the contrary, a well classified tariff system especially based on the Brussels Tariff Nomenclature, should lead to a more efficient tariff collection. Cumbersome administrative procedures, and dishonesty on the part of both officials and importers have had to be blamed for the widespread practice of tax evasion.

PARA-TARIFF CHARGES

Apart from import duties there are various charges on imports which have the effects of a tariff. The first to be introduced was the Purchase tax which was imposed in 1961² as part of the efforts of the government to control luxury imports as the balance of payments situation worsened. The purchase taxes ranged from 5 to 100 per cent and affected a large number of consumer - durable goods the most prominent of which were motors cars. Although the main pur-

1) Statement by Col. I.K. Acheampong (idem). "The highly differentiated tariff structure was intended to encourage certain forms of imports and to discourage others. Or the objective was to reflect the social and economic priority of imports in the rate at which they were taxed. In some sense it could be said that the Government was imposing higher rates of exchange on the commodities to which it attached lower social and economic significance, and vice versa. However, these objectives were not achieved. The result was that the Government did not succeed in using higher import duties to restrain imports; nor did it succeed in obtaining large revenues to support its development programmes. The reasons for this double failure was that importers succeeded in evading the payment of the higher rates of duty, because of the wide differences in tax rates, which made it possible to "misdescribe" imports as articles attracting lower taxes. The object of the tariff restructuring is to remove this anomaly whereby high duties have neither brought us proportionate revenue, nor favourably influenced the balance of payments".

2) The Purchase tax Act 1961 (Act 67).

TABLE I

GHANA : EFFECTIVE TAX BURDEN ON IMPORTS, 1969

	Import duties	Sales tax on imports	Surcharge	Total taxes	Value of imports	Effective tax burden (per cent)
	(in million N¢)					
1. Food and live animals	8.1	2.0	0.7	10.8	55.2	20
2. Beverage and tobacco	3.3	0.1	Neg.	3.4	1.6	125
3. Crude materials, inedible, except fuels	0.3	Neg.	Neg.	0.3	5.4	6
4. Mineral fuels, lubricants, etc...	19.2	4.1	Neg.	23.3	22.9	102
5. Animal and vegetable oils and fats	0.6	Neg.	Neg.	0.6	5.9	10
6. Chemicals	4.4	1.7	0.5	6.6	55.1	12
7. Manufactured goods classified chiefly by materials	16.6	3.9	0.6	21.1	97.4	22
8. Machinery and transport equipment	7.0	2.2	1.0	10.2	94.5	11
9. Miscellaneous manufactured articles	3.4	4.0*	Neg.	7.4	14.6	51
10. Miscellaneous commodities, n.e.s.	0.7	1.3	Neg.	2.0	1.8	111
TOTAL	63.6	19.3	2.9	85.8	354.4	24

*Includes N¢ 3 million of purchase tax receipts.

Source : Central Bureau of Statistics and Customs and Excise Department.

pose of this tax was to raise revenue it was also to be a means of controlling imports.

In 1965 the purchase tax was abolished on all imports except motor cars. In place of the purchase tax a *sales tax*¹ was introduced on a wide range of domestic and imported goods. Like the purchase tax the objective of the sales tax on imports was both to reduce imports and raise revenue. During the fiscal year 1970/71 a *development levy* was imposed on imported rice, sugar and cement and as the name itself implies it was aimed at the protection and development of the domestic production of these commodities.

The introduction of a system of surcharges in 1969 has already been mentioned above. Despite the existence simultaneously of numerous forms of imposition the total import taxation burden as calculated in 1969² (see table I) was relatively modest. The high level of exemptions was partly accountable for this, but the fundamental reason was the lack of rationale in the structure of tariffs in particular and in the import taxation system in general.

REVERSE TARIFF POLICIES

The tariff policy of a country encompasses also all the measures and factors which influence in one way or the other the tariffs to which her products are subjected in other countries' markets or the products of other countries are subjected to in her own market. In this regard one of the important factors is the country's membership of various international and regional economic institutions. The full impact of these institutions on Ghana's commercial policy will be fully analysed later, but in this section attention will be concentrated on the effects of her membership of the GATT and the Commonwealth on her tariff policies.

*Ghana and the General Agreement on Tariffs and Trade (GATT)*³

The GATT as its name implies is a body of binding rules aimed at regulating the free flow of international trade. Ghana has been associated with the GATT from the very period of its institution in 1947 by virtue of her position as a colony of Great Britain. The extent to which the GATT applies to colonies, separate customs territories of contracting parties, and other dependencies is affected by three provisions ; article XXIV, particularly, paragraph I ; article XXVI para-

1) Sales tax was in turn abolished in 1973 as a part of the import taxation reform announced - see page 67 above.

2) The year 1969 was chosen because with the introduction of the surcharge in that year the number of different impositions on imports was at its highest.

3) Other implications of Ghana's membership of these institutions will be more fully analysed in chapter X.

graph 5 and the Protocol of Provisional Application (and comparable provisions in protocols of accession). For all intents and purposes Ghana as a colony was not regarded as a contracting party and she had no obligations separate from those accepted on her behalf by Great Britain while enjoying the rights accruing to Britain. In effect she had no separate negotiated schedule of her own unlike the case of colonies like Burma, Ceylon and Southern Rhodesia who were deemed to have autonomy in external commercial relations and were accepted as contracting parties when GATT was drafted in 1947. On her attainment of full political independence Ghana became a full contracting party through the sponsorship¹ of Great Britain as specified under Article XXVI para 5 (c)².

“ If any of the custom territories in respect of which a contracting party has accepted this Agreement possesses or acquires full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement, such territory shall, upon sponsorship through a declaration by the responsible contracting party establishing the above mentioned fact, be deemed to be a contracting party ”.

One of the most significant aspects of this type of entry into GATT is that no new tariff negotiations, that is, no “ ticket of admission ” are necessary as a prerequisite to entry³. The practice of GATT as reported by one Working Party, has been stated as follows : “ A government becoming a contracting party under Article XXVI 5 (c) does so the terms and conditions previously accepted by the metropolitan government on behalf of the territory in question ”⁴. This meant that if tariff or trade concessions for the territory existed within the Schedule of the sponsoring government that portion of the sponsor's Schedule would be lifted out and made the Schedule of the new nation. But if no such Schedule existed for the territory, it could be inferred that the territory has no Schedule meaning that it has been able to enter GATT without making tariff concessions whatsoever. The obligations of a sponsored entrant are not specified under Article XXVI para 5 (c).

The fact that Ghana attained independence unencumbered by any schedules placed her in a situation which gave her a free hand to negotiate for concessions with any other contracting party, however

1) Declaration of October 17, 1957, GATT, BISD 6th Supp. page 9 (1958).

2) This practice has been modified since 18 November 1960 by a recommendation of the Contracting Parties (BISD Ninth Supplement p. 16) by which newly independent states are not required immediately to become full contracting party but offered “ de facto ” membership for a period of time so that they could have the time to consider their future commercial policy and the question of their relations with the General Agreement.

3) See World Trade and The Law of GATT by J.H. Jackson, p. 98 (Published by Bobbs-Merrill Company Inc. 1969).

4) GATT - BISD 10th Suppl. p. 73 (1962).

Ghana had until the Tokyo Round¹ not directly participated in any of the multilateral tariff negotiations since her independence, taking advantage only of the MFN clause to obtain the concessions accruing from such negotiations. What are the implications of GATT membership for Ghana as far as tariffs are concerned ? This question can only be answered in broad outlines.

Ghana's membership of GATT signifies that the obstacles which Ghana's exports will meet in importing member countries are subject to the limitations imposed by the GATT rules. They should not be subject to discriminatory treatment in the tariff or the quota fields as the other contracting parties are committed to accord unconditional most-favoured-nation treatment ; the exceptions being in regard to the preferential systems existing in 1947 and customs unions and free-trade areas. Ghana's exports are also protected against increases in the tariffs of other contracting parties, where the tariff covering these particular exports has been bound as a result of tariff bindings negotiated by other contracting parties. In this regard it should be underlined that the greater proportion of the tariffs of developed countries have been bound and the successive tariff negotiations² held under the auspices of GATT have brought about reductions in the level of tariffs, especially by the developed countries, covering a very large percentage of world trade. Equally important is the tariff stability in the major importing markets resulting from the binding of duties. However while the past successive negotiations have led to a large degree of liberalization in trade in manufactured goods the same cannot be said of agricultural and semi-processed products³ which are the sectors of most relevance to developing countries like Ghana. Almost all developed countries afford substantial protection to their agricultural sectors using a wide range of devices, other than tariffs, such as levies, quotas, price supports, production subsidies and income deficiency payments.

The Commonwealth preferential system

By virtue of her position as a colony Ghana had, by the time of the attainment of independence, had a long tradition of preferential tariffs relationships as a member of the British Commonwealth pre-

1) The Tokyo Round of multilateral trade negotiations was commenced in September 1973 and had by the time of writing not been completed.

2) There have been six major trade negotiations since 1947 under the auspices of GATT ; in 1947 (in Geneva), in 1949 (Annecy), 1951 (Torquay), 1956 (Geneva) ; 1960-61 (Geneva-Dillon Round) ; 1964-67 (Geneva, Kennedy Round). In addition there have been smaller-scale negotiations preceding the accession to the GATT of individual countries and in relation to special occasions such as article XXIV negotiations occasioned by the enlargement of the EEC.

3) It is in this sector that the nominal tariffs of developed countries, apparently modest attain their highest effective protective levels. Effective protection is discussed in greater detail later in this chapter.

ferential trading system. The origin of this system could be traced to the Navigation Acts¹ of 1651 and 1660 which gave to British manufacturers the lion's share of colonial markets in North America and the West Indies and to British traders an important entrepot trade with the colonies in those articles which England did not produce. No important modification of laws was made until the XIXth century with the acquisition of colonies in Africa.

The year 1919 thus saw the beginning of the British Commonwealth preferential system or rather, as was called, Imperial Preferential Tariffs². In spite of this United Kingdom still enforced free trade as a policy until in 1932 when it was obliged to abandon it by the great economic depression and pressures from the empire. It enacted a complete tariff with free and dutiable lists covering all imports. Under this virtually all goods coming from the dominions, colonies and mandates were made duty-free. It was the Ottawa Conference in 1932 that institutionalized and rationalized the Commonwealth preference system. Following the Conference the list of preferences established by Britain in favour of the dominions and colonies between 1915 and 1919 was expanded and made applicable by a series of agreements between the United Kingdom and the principal dominions and colonies and between some of the latter, so that preferential tariffs applied to imports into most dominions and dependencies, except several open door territories, mostly in Africa. In this way a system was created by which while the products of colonies like Ghana and Nigeria enjoyed preferential duties in the United Kingdom and the principal dominions there was no reciprocal treatment to goods from these countries in the Ghana and Nigerian markets³.

However as is the case with all preferential systems any tariff concessions given by a donor country to third parties tend to diminish the preferential margin enjoyed by the original beneficiary countries and after the Ottawa Conference the preferential margins under the Commonwealth Preferential Systems never ceased to diminish beginning with the bilateral trade agreements of the later 1930's between the United States and British countries especially Canada. At the United Nations Conference in Trade and Employment held in 1947 the British government declared its readiness to reduce the margin of Commonwealth preferences provided there was adequate compensation. In the negotiations which prepared the way for the pro-

1) The Navigation Acts required that 1) no goods could be shipped to or from the colonies except in British ships built and manned by English as colonial labour. 2) all goods imported into the colonies from foreign countries had to go via England and 3) certain enumerated articles could not be exported direct from the colonies to foreign country but only to England e.g. sugar, tobacco, cotton, molasses, furs and timber.

2) Tariff Preferences for Developing Countries - Existing and Proposed Arrangements - by G.C. Reeves (U.S. Tariff Commission - Staff Research Studies - 1971).

3) Among the African colonies the situation differed for while Nigeria and Ghana offered no reciprocal preference to Britain and the dominions most of the others who enjoyed budgetary subsidies from Britain offered her preferential tariff treatment.

visional application of the General Agreement on Tariff and Trade the margin of preferences were considerably reduced and the dominions received compensatory benefit in the form of extensive reductions in the m.f.n. rates of duty charged by all the participating countries. All the subsequent tariff negotiations under the auspices of the GATT have resulted in further narrowing down of preferential margins. For the developing countries members of the Commonwealth, the process was accelerated with Britain's membership of the EFTA in 1959 and by the adoption by Britain of the GSP in 1972. The accession of the United Kingdom to the EEC in 1973 marked the end of the Commonwealth preferences given to imports into the United Kingdom from most of the developed Commonwealth countries. With regard to the Commonwealth countries of Africa, the Pacific islands and the Caribbean their final position was to depend on whether or not they would accept an association status with the EEC. This problem was solved when the Convention of Lome¹ (February 1975) enabled Ghana together with 45 other Caribbean, African and Pacific nations to establish preferential trade relations with the EEC. For Ghana the Commonwealth preferential system still implied the entry of most of her exports at preferential rates of duty into Canada, Australia and New Zealand until their adoption of the GSP².

The Commonwealth Preference System and more precisely the UK Preference System in favour of developing commonwealth countries has not had a profound effect on the economy of Ghana³. Until after independence the major part of Ghana's external trade was with the United Kingdom but this was the result more of the existing political relationship and the special monetary, financial, shipping and communications arrangements and facilities⁴ as well as the cultural ties than of the special tariff advantages enjoyed by Ghana in the UK market. The relevance of any trade preferential system is to a large extent a function of the nature of the products covered. As an exporter of manufactured goods consumed largely in the UK market the

1) The implications of the Convention of Lome for Ghana's commercial policy are discussed in chapter X.

2) The GSP of Canada became operative on 1st July 1974; Australia has since 1964 operated a preferential system in favour of most developing countries. Since the institution of the GSP it has been the tendency for these countries and New Zealand to dismantle their special preference in favour of the developing Commonwealth countries by gradually reducing the preferential margins they enjoy vis-à-vis the GSP margins. This tendency was accelerated with the signing of the Lome Convention, which increased the preferential advantages enjoyed by a large number of developing Commonwealth countries by virtue of the co-operation arrangement with the EEC. The GSP will be discussed in a wider context in chapter X.

3) See "Commonwealth Preference in Retrospect: Some Policy Implications for the Developing Countries" by Ingo Walter (The Economic Bulletin of Ghana - Second Series Vol 3 No 4 - 1973).

4) Among the most of the arrangements was the Sterling Area System which will be discussed in latter chapters. There was also the fact that most of the banks and insurance firms were British, and mostly British firms assured the shipping and communication services. Even more crucial in this respect was the fact that most of the major trading firms were British owned. For an assessment of preferential systems for LDIs.

TABLE II
FOREIGN TRADE TAXATION AS SOURCE OF REVENUE
TABLE PART. I, 1900-1960

(1)	(2)	(3)	(4)	(5)	(6)
Year	Total Revenue (£000's)	Import duties	(3) as % of (2)	Export duties ¹	(5) as % of (2)
1900	383	281	73	-	-
1910	1,007	611	61	-	-
1916	1,886	1,150	61	32	2
1926	4,365	2,075	47.5	318	7
1936	3,775	2,332	62	589	16
1946	7,568	2,461	32.5	975	13
1950	20,861	7,222	35	4,949	24
1955	64,009	18,280	29	24,690	39
1957	59,922	14,983	25	22,734	38
1960	83,413	25,862	31	16,158	19
(million ¢)		Part II 1961-1974 (million ¢)			
1961	174	59	34	32.0 (30.5)	18.4 (17.5)
1962	153	61	40	26.0 (25.0)	17.0 (16.3)
1963	170	68	40	30.2 (29.2)	17.8 (17.0)
1964	253	69	27	31.0 (29.7)	12.2 (11.7)
1965	284	107	38	20.5 (19.7)	7.2 (6.9)
1966	231	75	32	16.1 (15.3)	7.0 (6.6)
1967	254	66	26	35.4 (34.7)	13.9 (13.7)
1968	298	56	19	70.3 (69.7)	23.5 (23.0)
1969	332	60	18	99.0 (98.2)	29.8 (29.5)
1970	453	108	24	154.6 (153.8) ²	34.1 (33.9)
73/74	562	96	17	195.9 (190.1)	34.8 (33.8)

Figures are based on financial years.

1) As from 1961 the figures in brackets under columns 5 and 6 refer to cocoa export duties only.

2) Including ¢ 69 million paid by the Cocoa Marketing Board as arrears on its 1969/70 cocoa shipments.

Source : Treasury Department, Annual Reports. Blue Books ; (as reproduced in " Political Economy of Colonialism in Ghana " edited by G.B. Kay, Cambridge University Press 1972). Central Bureau of Statistics (Accra), Economic Surveys ; Statistical Yearbooks.

UK tariff preferences would have given Ghana a certain competitive advantage over non-commonwealth countries on the UK market. Even in this respect, it must be pointed out that non-tariff measures such as standards and quality requirements as well as regularity of supplies, often play a greater role in the penetration of developed markets than tariff advantages. However Ghana's exports have been predominantly in the form of primary products - mostly agricultural commodities and industrial raw-materials - most of which are normally subjected to relatively low tariffs, at least in their very raw form in industrialized countries so that the preferential margins have not been such as to prevent non-preferential imports from entering the market. Moreover the fact that a substantial part of the UK imports of primary commodities was reexported increased the importing capacity of the market beyond the capacity of commonwealth suppliers thus reducing the relevance of the preferential advantages enjoyed by them. The tariff preferences enjoyed by Ghana in the UK market has not prevented a steady decline in its share of Ghana's exports in favour of new-comers to Ghana external trade, as has been pointed out in chapter II, another proof of the relative unimportance of these preferences.

TARIFF SYSTEM - A CRITIQUE

A valid assessment of a tariff system can only be made by relating it to the policy objectives to which it has been geared and in Ghana as in most developing countries, tariffs have been used principally as a source of governmental revenue, as an instrument for protecting and promoting industries and as a means for controlling the balance of payments and for allocating scarce foreign exchange. Tariffs have also been a useful tool of international commercial bargaining.

Tariffs as source of revenue

As Table II shows, import duties have always provided a substantial share of budgetary revenue and this may represent a success for the country's use of customs duties as a source of revenue, but the real question is whether the system which has operated until now has been such as to maximize such revenues. Part II of Table II brings out the rather erratic performance of tariffs as source of revenue since 1961. There are a number of reasons for this. An analysis of the taxes on imports as at 1969 (see Table 1) shows that taking into consideration all the various taxes on imports, the average tax burden worked out at less than 25 per cent of the total value of imports, both taxable and duty free. The two main reasons were firstly the relatively low level of the duty rates and secondly the large number of items exempted from duties roughly 30 per cent of total imports. Only alcoholic beverages and tobacco, fuels and lubricants and miscellaneous manufactured articles bore relatively high burdens otherwise machinery and transport vehicles and chemicals which account for about 40 per cent of total imports (1969) bore a tax bur-

den of about 10 per cent. As has already been pointed out, cumbersome administrative procedures and dishonesty are mainly to be blamed for duty evasion and for inefficient duties and tax collection. The balance-of-payments deficits which became part of the Ghanaian economic scene after the 1961 and the subsequent attempts to control imports in accordance with the year by year changes in the situation is probably the fundamental reason for the fluctuating nature of the receipts from import duties. In this respect one's attention is drawn to the attempts by different Ghanaian governments to use either tariffs or physical controls or both as instruments of import control. With regard to tariffs there is a basic contradiction, already pointed out between its effectiveness both as a source of revenue and an instrument of import control. A way out of this contradiction will be to apply the "optimum" levels of tariff for the various commodity sectors based on the anticipated level of imports and revenue required. There are many practical problems involved in the use of such a concept among which is the calculation of the price elasticities of demand as a basis for estimating the level of tariffs for the various commodity sectors. In Ghana as the required level of imports might change from year to year depending on the anticipated level of export earnings it implies that the above exercise will have to be done yearly which is administratively impracticable.

The long retention of the surcharges which were first imposed on a temporary basis was a proof of the basic weakness of the tariff system. The long list of exemptions was another element of weakness which has been largely eradicated. The exemption of the government from import duties may appear justified on the ground that if not exempted, it would only be a matter of book entry, but it certainly did not place a constraint on the level of government imports or the preference of government departments for imported goods over locally manufactured articles.

Tariffs and industrial protection

Another issue is whether the structure of the Ghanaian tariff has provided an adequate protection¹ for domestic infant industries. Industrialization in Ghana has been geared among others, to the objectives of processing the country's traditional primary products in order to increase their export value; of producing import-substitutable goods for export. Despite such well declared objectives the commercial tools have never been articulated well enough to serve their attainment.

1) In probably the first really analytical study of industrial protection in Ghana J.C. Leith states the following "the protection of Ghanaian industrial establishments appears to be largely random. When set against the policy of simply promoting industrialization per se, the rationale for this apparently random dissemination of protection is not at all obvious. Yet when we recognise that this protective structure developed over several years with protective instruments frequently employed to achieve other objectives, and with a complexity that both researchers and policy-makers would find difficult to sort out we conclude that the variability and randomness of the protection of Ghanaian industrial activities was largely unintended". (See J.C. LEITH "Foreign Trade Regimes and Economic Development - Ghana", p. 77).

Firstly no clear list of priority industries has ever been established, priority in the sense of their necessity in the country's developmental effort and therefore their need for tariff and other protective measures. Moreover no effort has been made to calculate the real level of protection needed by various industries or lines of production. In some instances, as has already been pointed out, duty free entry or concessionary rates of duty have been granted for the importation of raw materials and capital goods as a means of attracting investment¹. Concessionary duty rates given to raw materials and certain types of machinery were meant to reduce the cost of production and thus give domestic manufactures a competitive margin but in many cases they acted only as a disincentive to the development of local supplies especially with regard to agricultural raw materials. There are many other causes for the relative inefficiency of Ghana's manufacturing industries, some of which have already been discussed in the preceding chapter. The high price of most local manufactures often reflect windfall profits which the tariff and other protective measures accord the manufacturers at the expense of the consumer. It has later become the policy to encourage the production and use of local raw materials, by the removal of some of the concessionary duties on imported raw materials.

One fundamental reason for the difficulty in assessing the protective efficiency of the Ghanaian tariff regime is that there has actually never been a clear cut and consistent policy of employing tariffs for industrial protection. On the whole, as has been pointed out earlier, successive governments, apart from the abortive attempt of the Busia Government in 1970-71, have preferred the use of quantitative restrictions. All tariff rates, at a certain level, are bound to contain a protective element, even if protection is not a declared policy, but in the case of Ghana where such tariffs were imposed together with surcharges and quantitative import controls which are sometimes prohibitive especially with regard to substitutable import goods, it is difficult to assess their protective effects, other than the fact that they might be partly reflected in the high price of local manufactures.

1) See "The Capital Investment Act of 1963 (Act 172) : "Exemption from indirect taxes and charges

- (1) An approved project may be granted any or all of the following benefits, namely,
 - (a) exemption up to one hundred per centum from import and customs duties under the Customs and Excise Decree 1972 (NRCD 114) and purchase tax under the Purchase Tax Act, 1961 (Act 67), for imported goods that are essential for the implementation and operation of the project and which cannot within a reasonable period be produced in sufficient quantities in Ghana; and in any such case the exempted goods shall not be sold unless the corresponding duties are previously paid;
 - (b) exemption up to one hundred per centum from export or excise duties under the Customs and Excise Decree, 1972 (NRCD 114) and sales tax under the Sales Tax Act, 1965 (Act 257), on goods produced by the approved project;

Provided that the goods exempted from export or excise duties are cleared through Customs.

- (2) An exemption granted under subsection (1) of this section shall be for a period not exceeding ten years.

In matters of tariff protection it is now accepted that what is essential is the effect of tariffs on the value added during the various stages of processing rather than on the finished product. As tariffs have not been consistently used as an instrument of protection in Ghana, no coherent policy on effective protection has been worked out ; thus, as has been pointed out in Chapter 2 above¹, effective rates of protection in Ghana have ranged from a negative rate to over 1,000 per cent.

Tariffs and the balance of payments

The preference of past successive governments of Ghana for the use of quantitative restrictions rather than tariffs for balance-of-payments import control and allocation has already been mentioned earlier in this chapter and will be discussed in greater detail in the next chapter. Attempts were made in 1961 and again in 1970-71 during Busia government to use tariffs solely for import control ; but as has been stated earlier in this chapter the 1961 policy was reversed within a matter of months and the other attempt ended with the overthrow of the government in January 1972 and was too short-lived for one to make a real assessment of its effectiveness, however the liberalization effort has been widely blamed for the large trade deficit, a blame which is not justified as the following, simple analysis of the facts shows, The year which followed the liberalization measures (1971) saw a fairly substantial balance-of-trade deficit of 65 million cedis ; however imports remained almost the same, taking into consideration requirements of growth, namely 419 million cedis in 1970 as compared with 445 million in 1971. Exports on the other hand fell from 467 million cedis in 1970 to 380 million cedis in 1971 which implied that the fall in export earnings and in particular from cocoa exports following a fall in world prices in the 1970/71 season, rather than the liberalization of the licensing regime and its replacement by tariffs, as was widely assumed at that time, was to blame for the large trade deficits.

Tariffs as instruments of commercial policy bargaining

As often happens, countries do enter into negotiations with actual or potential trading partners for the purposes of exchanging conces-

1) For a study of effective tariff protection in Ghana in the late sixties, see J.C. LEITH, op. cit. 48-80.

The concept of effective protection has been the subject of a number of recent academic and empirical studies and an impressive literature has grown around it. A symposium organized in 1970 jointly by the GATT and the Graduate Institute of International Studies in Geneva brought together some of the best academics and empiricists on the subject. The book which resulted from the symposium may be regarded as a standard work on the subject (" Effective Tariff Protection " by GATT and the Graduate Institute of International Studies edited by H.G. Grubel and H.G. Johnson, Geneva, 1971). In the introductory chapter H.G. Grubel states that the theory of effective tariff protection contributes substantially to the understanding of how the structure of nominal tariffs affects the production pattern of a country by specifying what effects tariffs have on the value added or processes of an industry rather than on the price of the protected industry's output.

sions of reciprocal interests to their trade. Such negotiations take place either bilaterally or multilaterally within the framework of international and regional bodies and cover either purely commercial matters such as tariff and non-tariff barriers, or wider fields such as payments, shipping, technical assistance and even regional cooperation and integration. The imposition of tariff and the exchange of tariff concessions, a classical instrument of commercial policy, is probably as old as trade itself. In Ghana tariff bargaining has until recently not been a strong feature of commercial diplomacy either bilaterally or multilaterally. As a colony, Ghana had her own tariff system mainly for the purpose of revenue collection. Her power to engage in tariff negotiations and assume commitments however resided with the negotiating power, Great Britain. Since independence she has not engaged in any meaningful tariff negotiations, bilaterally¹ or multilaterally despite her membership of the GATT.

There are a number of reasons for this. As has been mentioned earlier in this chapter, on the attainment of independence Ghana came to enjoy a number of tariff concessions both on m.f.n. and preferential basis by virtue of her membership of the GATT and the British Commonwealth, without being obliged to offer any reciprocal concessions. Although she could have engaged unilaterally in the series of GATT negotiations which have taken place since 1957, to improve the market access for her major exports, some of which continued to be subjected to substantial tariffs in many major markets, this would have obliged her to offer concessions for tariff advantages which other developing countries exporting similar products could have enjoyed by virtue of the m.f.n. clause without "paying for". In view of her rather feeble bargaining strength it has been preferable for her to take advantage of concessions negotiated by others. Part IV of the GATT General Agreement with its insistence on non-reciprocity on the part of developing countries in tariff negotiations with developed countries provides a negotiating principle which could have been used for Ghana, for instance, during the Kennedy Round of tariff negotiations. But non reciprocity has not been widely accepted in the GATT and developing countries stand to gain in such negotiations by increasing their bargaining power through joint action², however, so far, attempts at joint action have been so beset with conceptual and practical problems that they have played only a very marginal role in GATT tariff negotiations. The main reasons for Ghana's non-participation in tariff negotiations must, however, be sought at the home front. In the first place the liberalization of access to markets has, until recently, been rather low in her list of commercial policy objectives. Such issues as export pro-

1) Some of Ghana's bilateral trade agreements especially with centrally planned economy countries however contain a provision embodying the exchange of the most-favoured-nation treatment, which is implied to cover also the tariff field.

2) The possibilities offered by joint action by developing countries in such negotiations were amply illustrated by the successful negotiations between the 46 ACP (African Caribbean and Pacific) countries and the EEC for the "Lome Convention".

motion and diversification of export commodities and markets and price stabilization have been a greater preoccupation. Probably a more fundamental reason is the fact that tariffs constitute an invaluable source of revenue for Ghana which she could not easily afford to negotiate away¹. It must also be pointed out that until 1971 when an enabling Act² was passed paving the way for the possible introduction of preferential duty rates the Ghanaian tariff schedule could probably not be effectively used for the purposes of negotiations.

The picture which comes out of a study of Ghana's tariff system is one of a confused state of import trade taxation. Not only was there a lack of harmonization in the level and structure of the tariffs but the parallel existence of other forms of taxation such as surcharges, purchase tax and levies rendered any evaluation of the efficacy of the system with regard to its declared objectives almost impossible. The objectives themselves appeared not to have been well defined and were subject to constant changes as governments succeeded one another. The impression is given of ad-hoc measures taken on experimental basis to serve ill-defined objectives.

1) In some developing countries a way out of this dilemma has been found by instituting two tariff columns, one a revenue tariff imposed on all imports, and a protective tariff which is basically for the purposes of protection and could be an instrument of negotiation in the fulfilment of the country's international obligations.

2) See page 64 above.

Chapter IV

IMPORT CONTROL POLICIES

INTRODUCTION

The control of imports is practised by trading nations for various reasons. The most important of which are the redressing of balance of payments deficits, the allocation of foreign exchange resources and the protection of national production. Imports are also controlled for health and sanitary as well as for security reasons, however, in most cases balance of payments, allocative, and protective reasons furnish the main justifications for such controls.

The main commercial policy instruments which have been employed in Ghana in the face of the persistent balance of payments deficits have been customs duties, consumption taxes, import surcharges and especially quantitative restrictions and exchange control measures. Different government regimes have placed emphasis on each of these measures at different times depending on their economic policies and other circumstances. The tariff policies of Ghana have been discussed and the emphasis in this chapter will be on the instruments of quantitative controls. Before discussing the nature of the import control system, a knowledge of the structure of the importing system is necessary.

THE STRUCTURE OF THE IMPORTING TRADE IN GHANA

During the colonial period the importing trade in Ghana, as in most other West African countries was in the hands of foreign trading firms. These were of two main kinds, firstly there were the subsidiaries of a few European firms controlling most of the import and export activities such as the UAC, SCOA, UTC, CFAO, John Holt¹, etc... These were in fact multinational companies with their own established lines of supply and financial facilities with local as well as foreign banks. They had branches throughout the country and engaged not only in wholesaling but also in retailing either directly or through

1) The role of the private sector in the economy has been briefly described in chapter II.

agents. On the second level were the medium and small sized firms operated by Indians, Pakistanis and Lebanese firms; a few of these were engaged in direct importation while most of them acted as retailers for the European firms. At the foot of the ladder was a small elite of Ghanaian traders and although there existed an active Ghanaian retailing business the traders normally obtained their supplies from the big established European firms. Most of the big firms, on the country's attainment of independence, had begun to withdraw voluntarily from the retail field except for the operation of a few big super markets and premises for technical sale and servicing; political and economic pressures were later applied to accelerate this process. Although the participation of Ghanaians in importing trade began to increase, the situation described above remained unchanged for a long time despite measures by the Government to encourage indigenous entrepreneurship. Faulty management, difficult access to banking facilities, lack of established lines of supplies, the oligopolistic practices of the established firms and the inter-reaction of various socio-economic factors militated against the growth of a modern Ghanaian trading community¹.

In its effort to promote a more active participation of Ghanaians in the export and import trade the government has practised since the 1950s a relatively open door policy as far as Ghanaians are concerned while gradually limiting the activities of Asian and Lebanese firms. No exacting requirements are demanded for participation other than the ordinary banking business requirements. In spite of this the average Ghanaian trading firm has remained a relatively small unit. Inefficient management and individualism often negatively reflected in the lack of confidence in partners, and lack of interest or the inactivity of some partners, are some of the reasons often given for the failure of most business associations in Ghana². The basic requirement for participation in the import trade is that commercial importers have to register with the Ministry of Trade and Tourism and to pay a flat registration fee. For the purposes of issuing licences importers are graded by the Ministry on criteria which have up till now not been well defined but presumably on the basis of the volume of their turnover. There was no open policy of discrimination against the established foreign firms in the allocation of import licence but in reality the policy of successive governments of promoting a fuller Ghanaian participation in foreign trade has meant diminishing the role of foreign firms.

The relatively liberal policy described summarily above has contributed to making Ghana a country of importers and has led to abuses of the licensing system as hundreds if not thousands of impor-

1) For a study of some of the sociological factors influencing the development of business enterprises in Ghana, see "African Traders and Economic Development in Ghana" by P.C. GARLICK OUP 1971. See also P.T. BAUER, *op. cit.*

2) For a discussion of this aspect of Ghanaian business life, see P.C. GARLICK, *op.cit.*, pp. 38-59.

ters compete and literally fight for licenses. A major qualification to the generally open-door policy in trade is the practice of government procurement which on the average accounts for about 8 to 10 per cent of imports. The main organ in charge of this is the Ghana Supply Commission, supplemented periodically by specially created committees charged with the importation and distribution of so-called essential commodities.

EVOLUTION OF IMPORT CONTROL POLICIES

Licensing of imports has for a long time been part of the import regime of Ghana. Under the colonial regime licensing was aimed more at regulating the flow and sources of imports rather than at restricting imports for balance of payments reasons. However as part of the Sterling Area and a participant in the Sterling pool Ghana was affected by the foreign exchange restrictions which the exigencies of the war time and immediate post war economic situation demanded. Thus for example imports from scarce currencies areas were restricted. In the immediate post war period there was a general scarcity of imported goods, and controls had to be imposed by the administration to ensure a regular flow of needed commodities. At the time of independence imports were regulated by three main licences an Open General Licence (OGL), Quota Licences and Specific Import Licences.

Import restrictions originating from disequilibrium in the external payments system were first introduced in Ghana on 1st December, 1961 when all Open General Licences and Quota Licences were revoked; the circumstances leading to this have already been discussed in chapter II. The objective of the regulation as stated in the official notice¹ was to restrict the import of goods where such restriction was deemed necessary in the public interest.

- a) to assist in promoting and maintaining the economic social welfare of the country and the people through improvement of the country's balance of payments position and encouragement of local and infant industries; or
- b) to enable the Bank of Ghana to fulfil its functions of regulating and controlling the transfer of monnies from Ghana and the disposal of foreign exchange derived from the exports of Ghanaian products.

The basis for imposing the restrictions was widened when the Minister of Industries announced in February 1962 that such restrictions were to serve the government's policy of promoting industrialization

1) Commercial and Industrial Bulletin of 1st December, 1961 (Ghana Government).

through import substitution¹. The licensing system was also to be used to divert part of Ghana's trade to the centrally-planned economies with whom a number of bilateral payments agreements were concluded in the course of 1961. It was thus clear right from the start that the licensing system was to be part and parcel of a general exchange control system. The licensing system allied to the exchange control system, the increases in some duties and the introduction of the purchase tax on imports all at the end of 1961 and in the course of 1962 constituted the first barrage of measures designed to combat a rapidly deteriorating external payment situation.

The evolution of the import control policies of Ghana over the past two decades has thus been conditioned by three main factors²: the need to redress the balance of payments deficits and optimize the allocation of scarce foreign exchange resources, the need to afford protection to domestic industries and the general economic philosophies of successive governments both civilian and military: in this last sense it may be said that it has gone through a full circle.

The immediate result of the quantitative restrictions and of the other measures taken in 1961 and 1962 was a major reduction in imports which led to a positive balance of trade and a smaller overall balance of payment deficit at the end of 1962. In 1963 as more OGLs were opened a deficit in the balance of trade reappeared the result of which was the revocation of all OGLs in December 1963 and the institution of a more strict importing programme in the course of 1964. The exchange control system was restructured and tightened. The succession of measures including also increases in tariffs and stricter exchange controls reflected the desperate attempts by the government to contain the deteriorating payments situation which was actually

1) "Where the Government are of the opinion that the locally manufactured product can meet the entire home demand and that its price and quality are up to satisfaction then a decision will be taken that in the interest of saving Ghana's precious foreign exchange earnings to finance the importation of additional investment goods, no import licenses will be awarded to permit the importation of the commodity which is already being produced excellently in Ghana".
(Parliamentary Debates, Vol. 26, No 9, February 6, 1962, Cols 198-9).

2) In a memorandum submitted by the Bank of Ghana to the Akainyah Commission the purposes of the system of import restrictions were further elaborated i.e.

- A.1) To regulate the flow of imports into the country with a view to excluding the importation of non-essentials as a means of improving the balance of payment position.
- 2) To bring about a balance between total imports and total exports of goods as a means of halting the drain on the reserves.
- B. In addition the restrictions were required to fulfil two other objectives.
 - a) Firstly, as a result of payments and trade agreements concluded with a number of Socialist countries during 1961, it was anticipated that exports, in particular of cocoa and timber to these countries would increase and that in accordance with agreements, there should be an increase in imports from them.
 - b) Secondly, the restrictions had a protective aim in so far as they were designed to discourage the importation of certain goods which were or could be produced locally in sufficient quantities to meet the entire domestic demand. This apart from encouraging local industry might exercise a beneficial effect on the balance of payments position by cutting down such imports. (See report of Commission of Enquiry into alleged Irregularities and Malpractices in connection with the issue of Import Licences 1964. Pages 5-6.

to worsen with the catastrophic fall in the price of cocoa in 1965¹. This completely threw the import programme out of gear and the resulting shortages helped to create the political atmosphere propitious for the military takeover in 1966 and the subsequent changes in policies.

The policy of the NLC, which took over from the Nkrumah governments, towards imports control could be described as an admixture of controls through the price mechanism and quantitative restrictions. It was in the former context that the "cedi" was devalued by 30 per cent in February, 1967. The devaluation was aimed more at reducing imports through the accompanying increases in the prices of imports than at export promotion². The effects of the devaluation were however partly nullified by the devaluation of the British pound sterling, Britain being Ghana's major importing market. The elimination of the import duties and the sales taxes on some products of mass consumption such as meat, fish, milk, rice, flour, sugar gasoline and kerosene announced in July 1967 in order to ease scarcities did not help matters, so also was the withdrawal in the same month of the advance import deposit requirement of 15 per cent. Another corrective measure of the NLC was the gradual termination in the course of 1967 to 1969 of a number of bilateral trade agreements.

The general economic philosophy of the Busia government which came to power in October 1969 tended towards greater liberalism, less state intervention in business and industry and more reliance on the price mechanism as a means of controlling imports. In the Budget statement of August, 1970 the government announced a programme of reducing quantitative import restrictions and of imposing additional import taxation. The 5 per cent ad valorem surcharge on imports was abolished and in its place new rates ranging from 5 - 150 per cent were imposed. Contrary to what was generally believed at that time the import liberalization programme did not lead to a major increase in imports; the balance of payments crisis of 1971 was due rather to the fall in export earnings consequent to the dramatic collapse of cocoa prices. About the end of December, 1971 the cedi was devalued by a massive 48.3 per cent and here again it is not clear whether this was a direct result of the payment deficit or a continuation of the government's policy of relying on the price mechanism. The immediate effect of the devaluation move was that within three weeks prices of both local and imported goods jumped by between 50 to 100 per cent and in few cases by as much as 200 per cent. This helped in preparing the mood of the country for the military takeover in January, 1972.

1) In 1965, prices fell from 20-21 US cents per pound in January to 13-14 cents in May. The annual average of 16.1 cents per pound for the year was, as the FAO pointed out, by far the lowest of the post war period and in real terms scarcely better than in the 1934-38 depression, when spot Ghana in New York averaged 6.1 cents per pound.

2) Although devaluation in Ghana may be aimed, primarily at reducing imports rather than at making Ghana's exports more competitive, the latter might be the case with regard to export industries with high local cost content such as the mining and timber industries.

Whether or not the massive devaluation by the Busia government was politically expedient was proved by subsequent events but it is another question whether the move was economically justifiable. It will be hypothetical to assess a policy measure which was not permitted to run its course but the move itself was certainly in line with the declared policy of the Busia regime of preferring the price mechanism to physical restrictions as a means of controlling imports. This policy has already been consistently implemented through the dismantling of quantitative restrictions and the increases in tariffs and surcharge. Seen from the immediate effect it had on prices especially of import's it is very likely that in the long run it might have led to the required reduction in imports.

The National Redemption Council which came into power early in 1972 set out at once to reverse some of the measures of the former government. After hurried consultations with the IMF the cedi was revalued so that its value came to represent a devaluation of only about 20 per cent vis-à-vis its value before the December measures.

As far as import controls are concerned there was a radical reversal of the liberal import policies of the former regime. A system of stringent import controls was instituted¹ ; a large number of goods was immediately placed on the prohibition list and licences were only given to imports considered essential. It became also the policy of the NRC to cut down on imports through the achievement of self-sufficiency in food and agricultural raw materials which have hitherto taken a substantial portion of the import bill. A cargo inspection company was contracted² to examine all imports for over-invoicing at the point of shipment ; over-invoicing is estimated to account for about 10 per cent of the import bill.

At the time of writing import licensing has been fully restored as the main instrument of import controls and attempts have been made to correct some of its shortcomings. Since 1973 specific licensing has been given a preponderant role while the OGL cover only minor items of trade. The relative arbitrariness of the pre-1966 system has given way to an increasing use of well-defined economic criteria in import programming. As a part of the NRC's policy of self-reliance imports are strictly programmed within the limits of the country's foreign exchange resources and foreign aid inflow is regarded more as a residual rather than integral element of foreign exchange budgeting. Another significant change in import policies since 1972 has

1) On the other hand the incidence of import taxation was reduced and restructured in the course of 1973. Sales taxes on imports were abolished and the range of import duties was narrowed from 5-150 per cent to 20-50 per cent. There was also a downward revision of Purchase Tax rates. An import licence levy was however applied to so-called luxury imports and articles now exempt from import duty and sales tax. (See chapter III for a discussion of the 1973 import taxation reform).

2) The General Superintendence Company Limited is a Geneva based company specializing in the inspection of commodities for price, quality and quantity in the country of origin or shipment. Its activities are world wide.

been the revival of trade with the centrally-planned economy countries of Eastern Europe and the Republic of China, through bilateral trade and payment agreements. Ghana's commercial relations with the centrally-planned economy countries will be treated in chapter nine. In 1974 the government, faced with a virtual collapse of the import control system was obliged to reintroduce the import deposit scheme with rates ranging from zero to 65 per cent without any apparent success in relieving the pressures on imports demand.

MECHANISMS OF THE IMPORT AND EXCHANGE CONTROL REGIMES

The system of import restrictions in current application in Ghana has its original legal base in the Import Restriction Order 1948, which gave the Controller of Imports and Exports powers to make Orders prohibiting or regulating the import and export of all goods.

All imports must be covered by one of three licensing categories; special unnumbered license (SUL), specific license, and open general license (OGL). Emphasis has been placed on one or the other of these licensing methods at various periods depending on the policies of the government in power and the exigencies of the moment. A special unnumbered license is issued to cover the importation of goods for which payment has been made by the importer in the country of origin or consignment, and hence no transfer of foreign exchange is involved. Normally, SUL's are not issued to cover imports in commercial quantities. The most important of the items covered by SUL's are imports by VALCO¹, imports of foodstuffs from neighbouring countries, machinery for certain industries, cars for personal use, and imports by foreign missions and philanthropic organizations.

Items which are not covered either by an open general license or by SUL's may be imported under specific import licenses unless the items are included in the list of restricted imports. Only registered importers are issued specific licenses covering imports in commercial quantities. Open general licenses permit the importer to bring in any of the goods listed on them without further written authority from the Controller of Imports and Exports. In addition to these three main licensing categories, a number of items are often placed on a restricted list. No licences are normally issued for such goods except in special circumstances. These items are usually those that are con-

1) According to the Agreement between the Ghana government and the Volta Aluminium Company (VALCO) which preceeded the realization of the Volta River Project, the VALCO (which is a partnership of two aluminium producers headed by Kaiser Aluminium and Chemical Corporation) was permitted to import alumina from its own plants abroad for smelting at its smelting plant in Ghana. As the operation did not involve the transfer of foreign exchange from Ghana, the imports were covered by special unnumbered license.

sidered to be domestically produced in sufficient quantities¹ or consist of certain less essential goods². In addition to the restricted list, imports of certain items are prohibited, for reasons of health, safety and national security as well as imports from certain countries for purely political reasons. Apart from these latter cases the system of import control in Ghana does not discriminate between sources of imports.

Import Controls and Bilateral Payments Agreements

The main qualification to Ghana's discrimination-free import control system, apart from import prohibitions for political reasons, is the result of obligations imposed by her bilateral payments agreements with certain countries having centrally-planned economies and state trading systems³. In order to enable Ghana meet her obligations under these agreements, the government earmarked special foreign exchange allocation for such imports each year. Import licenses were separately issued for bilateral payment agreements countries⁴.

Administrative framework of the restrictions

The power to grant licenses and to create exemption is vested in the Controller of Imports and Exports who is either the Principal Secretary of the Ministry of Trade or another person nominated by the Minister of Trade. Its regulations are administered by the Licensing Section of the Ministry of Trade in conjunction with the Customs and Excise Department, and the Controller's power to grant licenses has been delegated to specific officers of the Licensing Division of the Ministry. Other government departments may function in a consultative capacity as regards various aspects of the licensing regime. For example, applications for specific licenses from government departments, public utilities, and certain other agencies must be channelled through the Ministry of Finance and Economic Planning for endorsement and forwarded to the Ministry of Trade and Tourism. The Bank of Ghana advises the Government on policy issues involved

1) The list of restricted goods is not constant being subject to changes from time to time in accordance with the nature of domestic production and the exigencies of the importing programme at any particular time.

2) In general, "absolute prohibitions" apply primarily to unsanitary or dangerous items and "conditional prohibitions" apply to a larger group of items for which specific approval of a high official (e.g. Minister of Finance or the Controller of Customs and Excise) is required. Included in the latter list are diamonds, airmail printing paper, and seamless steel tubing. In addition all imports from Rhodesia, South Africa and South West Africa are prohibited.

3) Ghana had maintained at one time or the other during the past two decades bilateral trade and payments agreements with Bulgaria, Mainland China, Poland, Romania, USSR, Yugoslavia, Egypt, Hungary, Czechoslovakia, Democratic Rep. of Germany.

4) At first such licences were issued to cover imports from any of these countries but later they were limited only to the countries specified on the licences; this was aimed at ensuring that the various facilities under these agreements were fully utilized. (See chapter VIII for a fuller discussion of Ghana's trade with the bilateral trade countries).

and trade associations such as the Ghana National Chamber of Commerce¹ are also consulted on occasions. The whole licensing programme depends upon the limitations of foreign exchange and this calls in itself for programming of imports, and close co-ordination with the main financial institutions such as the Bank of Ghana and the Ministry of Finance and other relevant Ministries and institutions. The import programme is drawn up and supervised by an Import License Advisory Committee².

The mechanics of import programming 1966-69³

The basic aim of balance of payments import controls in Ghana has been to restrict imports to levels consistent with the country's foreign exchange resources and needs. This has implied an element of foreign exchange budgeting and import programming, however the tools used were often imprecise and the criteria arbitrary with the result that the aims of the controls were often not attained. In 1966 Ghana began an experiment aimed at refining import programming and foreign exchange budgeting as instruments of import control and allocation. The increasing reliance on foreign aid to supplement domestic foreign exchange resources necessitated a detailed estimation of such assistance as part of the foreign exchange budgeting and this offered part of the rationale for the new exercise in import programming.

Because the import program was drawn within the constraints of acute foreign exchange shortage, it aimed at

- a) providing a minimum of essential consumer goods,
- b) allowing a level of raw materials and spare parts consistent with planned utilization of the existing productive capacity of the economy, and
- c) ensuring imports of capital goods in an amount consistent with a planned target of investment expenditures aimed at increasing existing capacity.

1) The Ghana National Chamber of Commerce was incorporated by Executive Instrument on the 8th November, 1962, in a move unifying the two hitherto chambers, one for Ghanaian interests and another for foreign interests. The unified Chamber was established mainly to promote and protect the trade, commerce, industries and manufacturers of Ghana and to collect and circulate data relating to the trade, commerce, industry and manufactures of Ghana.

2) At the time of writing this Committee had on it, representatives of the Bank of Ghana, various ministries, and the Chamber of Commerce. (See further on in the chapter for a detailed analysis of the import programming exercise as practised between 1966 and 1969.

3) For a more comprehensive discussion of the import programming experiment in Ghana 1966-1969, see " Finance and Development " IMF Publication Vol 10/No 1 March 1973 - pp. 20-24.

Operational and Minimum Import Programs

The import program was worked out under two different assumptions regarding availability of foreign aid. The formulation of the "operational" import program (OIP) assumed that only such aid would be received as had been formally committed, while that of the "minimum" import program (MIP) assumed that some additional aid would be forthcoming and utilized during the course of the year. The MIP served chiefly as the basis for aid requests, assuming a certain target rate of income growth. Thus, it had no direct operational significance, except that it provided guidance for enlarging the OIP in the event of additional foreign exchange receipts. The OIP formed the initial basis for the issue of licenses.

The first stage in the preparation of an import program involved an estimate of resources likely to be available to finance imports. For Ghana this essentially implied estimating receipts from exports, of which cocoa on the average constitutes approximately 70 per cent of total export proceeds. Estimates were also made for other main exports, i.e. gold, diamonds, bauxite, manganese, timber. Finally, account was taken of the likely inflow of private and official transfers and capital receipts.

On the payments side, the authorities estimated all items except imports (c.i.f.). The largest single item was the debt service, the amount of which was easily predictable on the basis of the existing repayments schedule. Other payments items varied within small margins and could be estimated fairly accurately. Finally, the authorities fixed a target for net build-up in external reserves.

The amount of foreign exchange available for imports was the difference between estimated receipts and outlays, including the build-up of reserves. This amount was then allocated among various categories of import on the basis of an import program.

The formulation of the import program was approached from two different angles : aggregate and sectoral. The final program reflected a reconciliation between these two approaches. As a first step, a target was adopted for the likely increase in the gross domestic product (GDP) by estimating the increase in private and government consumption and the likely level of private and government investment. Private investment was arrived at after detailed inquiry into the investment plans of major industries, while investment in the public sector was based on budgetary appropriations as well as the investment plans of public enterprises. Estimates of investment in 1968 and 1969 were related to the projections in the two-year Development Plan, 1968-70. While exports were estimated independently, as described above, imports were then derived as a residual within the framework of national income accounts. This estimate of imports was compared with resources estimated to be available for imports. To the extent that requirements exceeded (or were below) the pro-

jected availability of resources for imports, growth targets, as well as consumption targets, were revised downward (or upward) and detailed calculations repeated until resources matched requirements.

Estimates of consumer expenditure were further subdivided among main items, i.e. food, clothing, beverages and tobacco, other durables, and nondurables and services. Ideally, such estimates would be based on certain empirically established relationships between consumption and income and other easily identifiable independent variables ; however, the Ghanaian programs relied on average ratios prevailing in the previous year or two.

The Ghanaian authorities next had to work out the import implications of the projected distribution of expenditures. An estimate was made of corresponding domestic supplies likely to be available, and the balance between projected demand and domestic supply was presumed to be met by imports. It was recognized, of course, that some particular commodities, within a broad category of items mentioned above, were not produced domestically, and an independent provision was accordingly made for such " nonsubstitutable " imports. Furthermore, domestic supplies themselves might be dependent upon imports of intermediate goods which were not reflected in the estimates of final demand within the system of national accounts. Demand for intermediate output was derived from demand for final products, and the shortfall in domestic supplies was allowed for in the requirements for total imports.

Under the sectoral approach, import requirements of each sector were determined separately. The sectors specified in the Ghanaian program were household, government, agriculture and fishing, forestry, manufacturing, construction, and transportation. The import demand of these sectors was separately estimated for consumer goods (durable and nondurables), raw materials, fuels and lubricants, spare parts, and machinery and equipment.

The estimated sectoral requirements were combined and compared with available foreign exchange for imports, and, where necessary, adjustments were made in sectoral targets, and hence in import demand, to eliminate the gap. They were then aggregated by major expenditure categories and, in combination with projected domestic production, yielded an estimate of GDP, as well as imports, for the program year.

The OIP was the basis of licensing, but was modified in accordance with the MIP, as and when additional foreign exchange became available. The licensing authorities were, however, authorized to transfer allocations from one item to another within any category (e.g., between sugar and meat in the consumer goods category) should it be judged necessary during the year.

TABLE I

GHANA : ACTUAL AND TARGET IMPORTS, 1967-69
(In millions of Ghanaian new cedis)

	O I P			M I P			Actual	
	1967	1968	1969	1967	1968	1969	1967	1968
Total imports	265.8	283.8	304.8	345.0	369.0	347.2	307.6	296.6
Non-aid ¹	207.0	221.2	242.5	213.0	226.5	247.3	277.5	248.0
Aid	58.8	62.6	62.3	132.0	142.5	99.9	30.1 ²	46.6 ²
								71.1 ²

Source : *Government of Ghana, Ghana's Economy and Aid Requirements, 1968 and 1969.*

1) Includes private supplier's credits.

2) Equals inflow of aid as shown in the balance of payments.

Implementation of the Import Program

Table (1) compares actual imports with the targets set under the OIP and the MIP.

In 1967 and 1968, actual imports exceeded the OIP targets but fell short of the MIP targets. However, in 1969 actual imports exceeded the operational level and approximated the target envisaged under the MIP. The excess of imports over the targets in the OIP did not necessarily follow from any increase in the level of aid over assumed utilization (in fact, aid generally fell short of the levels assumed under the MIP) but rather impinged upon Ghana's own resources. Thus, the reserve targets implied in the programs were not achieved, and Ghana accumulated arrears on current payments.

Compared with the OIP, actual imports under all end-use categories, except non-durable producers' materials, were higher in 1968, 1969, and during the first half of 1970. The excess was increasingly more marked for consumer goods than for capital goods, although in 1969 and the first half of 1970 a significant excess was also recorded for durable producers' materials. The consistent shortfall in imports of non-durable producers' materials plus the fact that imports of consumer goods exceeded the operational target, suggests that import substitution did not occur on the scale implied in the import programs. Similarly, the excess of total imports of durable producers' materials and producer equipment, despite a shortfall in investment (see Table 2 below), would suggest that the programme underestimated the import component of investment expenditure. These divergences would appear to indicate that the information available to the formulators of the program was insufficient to set the import targets.

It would appear, therefore, that import performance deviated significantly from the import programmes. The main reasons for this divergence may be classified as (a) institutional and (b) policy induced.

On the institutional side, as has already been pointed out, there were four important units in the licensing and payments framework of Ghana : the Ministry of Trade (for general imports), the Ministry of Industries (for industrial imports), the Ministry of Economic Affairs (for aid-financed imports), and the Bank of Ghana (for payments). There appears to have been little coordination between these agencies in the execution of the programme. The Ministry of Trade often issued specific licenses in excess of the allocations in the import programs in the expectation that a large part of the licenses issued would remain unutilized. Although data on actual utilization are not readily available, indications are that some underutilization did occur though not on the scale implied in the actual issue of licenses. No procedures existed which could have enabled the authorities to be continuously informed of the utilization of licenses, payments falling due, etc... The Bank of Ghana was made aware of payments that were due mainly through the exchange control form A-1, supplied

TABLE II

GHANA : DEVIATION OF ACTUAL IMPORTS FROM TARGETS, 1968-70¹
(In per cent)

Shortfall (-) of Excess (+) of Actual Imports Compared with

	M I P			O I P		
	1968	1969	Jan.-June	1968	1969	Jan.-June
			1970			1970 ²
Nondurable consumer goods	- 10	+ 48	+ 72	+ 14	+ 56	+ 82
Durable consumer goods	+ 3	+ 50	+ 53	+ 13	+ 50	+ 53
Fuels and lubricants	+ 1	+ 8	+ 5	+ 1	+ 11	+ 5
Nondurable producer's materials	- 22	- 31	- 26	- 6	- 25	- 11
Durable producer's materials	- 44	+ 70	+ 44	+ 6	+ 139	+ 63
Producer equipment	- 20	- 19	- 8	+ 11	+ 2	- 3
All imports	- 20	- 3	+ 4	+ 4	+ 11	+ 14

Source : Central Bureau of Statistics, External Trade Statistics of Ghana, 1968-70.

1) Based on imports c.i.f. and excluding VALCO imports of alumina.

2) The comparison of actual imports with the operational import program for the period January - June 1970 is based on the assumption that the operational program for the first half years bears the same relation to the annual OIP as does the MIP.

to it by commercial banks requesting exchange cover only after imports had been delivered and payments were due under 180-day trade credits. In addition, the authorities had little information on unutilized import licenses carried over from the preceding licensing programme. Finally, the gradual extension of the open general license also imparted a degree of uncertainty to the programmed estimates of imports under that category.

The relationship between import programming and financial policies also appears to have been less than well comprehended by the authorities. The formulation of import programmes had assumed that disposable resources would be distributed among different uses in accordance with the projections of various components of the GDP, and that corresponding financial and other policy measures would be undertaken by the authorities. However, policies as implemented did not bring about the required redistribution of use, and actual changes in consumption and investment differed from those set forth in the import programmes.

Considerable attention has been given to this experiment in import programming because of its uniqueness as an attempt to rationalise the allocation of scarce foreign exchange resources of a developing country in balance of payments difficulties.

The experiment was discontinued in late 1969 when the new government changed its emphasis to a more liberal import regime, which in turn gave way to an even more stringent import licensing system in 1972. Since then, the essential features of the import programming experiment have been re-introduced with relative success.

IMPORT CONTROL POLICIES - A CRITIQUE

As has already been pointed out Ghana's import control policies and the tools for them have been conditioned mainly by the persistent balance of payments deficits which have plagued the economy since the beginning of the 1960's. The cause of this situation is a fundamental one and a long lasting solution could only be found in a structural change that would reduce dependence on imports and increase export earning potentialities.

Commercial policy measures for correcting balance of payments problems, unless these are temporary in nature, are generally frowned upon by the international trading community¹, especially the developed countries which prefer monetary and financial instruments of control. Physical controls, it is claimed, creates barriers to, and

1) There are serious constraints in the Articles of both the GATT and the IMF on the use of quantitative restrictions and exchange controls for the purposes of industrial protection and for balance of payment reasons although special concessions have been provided for developing countries. They are nevertheless obliged to consult periodically within these bodies to justify their use. Ghana's relations with these institutions will be discussed in chapter X.

distortions in the flow of international trade. In many developing countries lack of refined monetary and financial instruments of control coupled with an underdeveloped economic framework for their use has often led to recourse to physical controls. The situation is, however, that as in Ghana these physical controls gradually become permanent rather than the temporary instruments they are supposed to be, thus helping to perpetuate the structural distortions in the economy which led to the balance of payments difficulties. In Ghana, more efforts appear to have been given to perfecting policies of import control than policies aimed at creating export awareness. Even where such import policies have led to emphasis on import substituting industries they have led to an increase in the import bill and uncompetitive production has prevented them from making effective use of their extra production capacity for exports. While successful policies of import substitution in industries and of "self reliance" in the production of food and industrial raw materials might lead to a diminution in dependence on imports and to savings in foreign exchange, this should not lead to a neglect of long term policies aimed at export growth.

One of the major criticisms against quantitative restrictions is that they are liable to be manipulated where their administration is inefficient. These manipulations are some of the causes of shortages which often accompany such restrictions. This point has been clearly brought out and explained by the Abraham commission¹.

"Import restrictions are a regulative mechanism and are meant to ensure that a country does not import more than it really needs. They do not mean that imports are less than it really needs. They do not mean that imports are less than adequate. The danger of shortages arises rather from the manipulation of the situation, for their own benefit, by traders... When import restrictions are introduced, traders know that there is a limit to the quantity of any particular commodity which can be imported on a given period. Hence, it is no longer as feasible or as important for them to make a quick turnover of stock, and replenish in that commodity, as it is for them to corner a substantial fraction of the market in that commodity, hoard, thereby induce shortages, and sell at a much higher price."

The irregularities and malpractices in connection with the issue of import licences have been catalogued by a series of public commissions of inquiry which successive governments have appointed to enquire into the trading and licensing systems in Ghana. In most of these enquiries both public officials and traders have been found to be at fault.

1) Report of the Commission of Enquiry into Trade Malpractices in Ghana (Abraham Commission) August, 1965 p. 4.

The Akainyah Commission¹ found out that many officials of the Ministry of Trade were guilty of various fraudulent practices. Import licenses were illegally amended; for example licenses issued for imports from bilateral trade, countries were altered to multilateral trade countries in the west. By means of this forgery licence holders were able to import from Western countries over and above the quotas officially authorised thus defeating one of the aims of the system of restrictions namely diverting imports in favour of Eastern sources with whom bilateral agreements have been concluded. Illegal amendments also often took the form of changing the items originally approved or changing the volume of imports allowed to individual importers. Officials were found to indulge in discriminating practices, ignored procedures and favoured friends or people with political connections, some of whom were even not importers. Officials were found to demand and receive from applicants sums of money varying from 3 per cent to 10 per cent of the value of the licences which the consumer and the nation finally had to bear in the form of over-valued invoices and higher prices. Firms to whom licences were regularly issued were found never to have done any importation, limiting themselves only to trafficking in import licences. For the purposes of trafficking in import licences, some importers registered fictitious business and closed down as soon as licences have granted them. Such practices went on unchecked either through official negligence or condonement. Licences were issued to business with financial disabilities and as a result licences were often unutilized. Apart from corruption of officials one major factor influencing some of these practices was political interference, thus members of the political party in power used their influence to obtain licences for themselves, friends or relatives. This was to a large extent facilitated by the absence of well defined criteria for grading prospective importers for the purposes of allocating licences.

The Abraham Commission not only pointed out most of the above malpractices but also drew attention to some of the fundamental causes of the inefficiency of the system of licensing. It pointed out that an effective procedure for administering a licensing system called for an accurate estimate of the volume of imports of specific commodities and their pattern of consumption in various areas of the country as well as an efficient distribution network². Moreover a system of specific licences of most commodities required for its success a studious phasing of indents and imports if periodic shortages are to be avoided. As the Commission further stressed, "where planning of imports is strict, it can easily be thrown out of gear by contingencies of manufacture and shipping. This is all the more reason why administrative bottlenecks in the issuing of import licences, however caused, are bound to lead to shortages, to hoarding, to black marketing, to

1) Like the Abraham Commission in 1965 the Akainyah Commission was set up in 1963 to enquire into alleged irregularities and Malpractices in connection with the issue of import licences during the period 1961-1963. Its report was submitted in February 1964.

2) Abraham Report, op. cit., p. 17-18. Some of these defects have been now removed by the system of import programming described above.

profiteering... ". Such administrative bottlenecks were caused among other factors, by the sheer volume of documentation; unwieldy method of validation sometimes severally necessitating the consent and countersignature of the Ministry of Trade, the Ministry of Finance and the Governor of the Bank of Ghana, laziness leading to delays in the issue of licences, irresponsibility and corruption. The inefficiency of the Ministry of Trade was highlighted in its failure sometimes to inform even the Bank of Ghana and the Ministry of Finance in advance of commitments it was creating by the issue of specific import licences. Another drawback of the licensing system which the Abraham Commission underlined was the practice of not utilizing licences in reasonable time due to some of the administrative bottlenecks mentioned above, as well as to the inability of suppliers to meet orders before the expiry date of the licences and to the insolvency of some intending importers.

REFORM OF THE IMPORT CONTROL SYSTEM

One fundamental issue to be considered in any reform of the import control system in general and licensing in particular is whether a developing country facing a serious balance of payments problem can afford to adopt an open door policy in import trade whereby anyone who can afford is permitted to participate in it. The presence of an army of importers competing for the right to participate in a limited volume of imports is a basic cause of the fraud, bribery and corruption administrative bottlenecks, and a host of other malpractices which have bedevilled the import control system in Ghana. While a completely centralized state importing system may not be compatible with the promotion of indigenous trading consciousness a drastic reduction in the number of small importers might be necessary coupled with a state participation in the direct importation of certain essential goods in the form of the institution set up in 1972 to import and distribute certain so-called essential commodities. In this context the danger is the establishment of an inefficient monopoly which will perpetuate some of the shortcomings it is supposed to correct. As the Abraham Commission pointed out, "The monopoly over the importation of essential commodities accorded to the Ghana National Trading Corporation has also wrought its own havoc. We do not believe that GNTC possesses the logistic talent to move large quantities of goods at short notice over a wide area..."¹. Any reform of the importing system must also be coupled with a reform of the internal distributive trade with a view to preventing hoarding and illicit trafficking in imported goods which create artificial scarcities, and to promoting a fluent flow of goods to all sectors of the economy.

1) Abraham Report, *op. cit.*, p. 7.

The Abraham Commission made a number of recommendations¹ for a reform of the administration of the import control system some of which have been implemented but most of which are still relevant. They recommended among other things that

- a) the list of importers should be curtailed on the account of the changing pattern of imports, to facilitate a better planning of imports and to simplify the supervisory work of customs and the Ministry of Trade ;
- b) the procedure for the issue of licences to importers should be simplified drastically ;
- c) the issue of licences should be centralized under the Ministry of Trade ;
- d) the supervisory machinery of the Ministry of Trade should be made more efficient so as to check such practices as non-utilization of licences, false declarations of importers, sale of licences and other fraudulent practices on the part of importers and distributors ;
- e) there should be better co-ordination between the various governmental agencies connected with the importing trade i.e. Ministry of Finance, the Bank of Ghana and the Ministry of Trade with a view to a better programming of imports as to volume and sources of supply, etc...
- f) the licensing system should be supported by an up to date information as to quantities in which specific commodities will be needed or wanted at given periods, based on such parameters as the rates of consumption, relevant population increase and the expected output of relevant local industries.
- g) with regard to licensing itself, licences should be issued without delays and importers would not be issued with licences above their maximum entitlement without the written consent of the highest authority ; the transfer of licences should be prohibited ; non utilization² of issued licences should be prevented at all cost.

Most fundamental to an effective and official administration of imports controls however, is a high degree of efficiency, honesty and integrity on the part of all the officials connected in one way or the other with such a system.

CONCLUSIONS

In this chapter attempt has been made to describe and analyse the instruments of quantitative import controls practised in Ghana during the past decade and half. Considerable attention has been given to the inherent weaknesses and drawbacks in view of the widespread use of these instruments of control in developing countries. Any debate on the relative virtues of controls through quantitative

1) Abraham Report pp. 73-74.

2) In November 1973 it was prescribed that in future all specific import licences should be fully or partially committed within three months from the date of issue.

restrictions as against the use of the price mechanism in Ghana can only be hypothetical in view of the fact that the price mechanism was never consistently applied as a policy and the first serious attempt ended in political upheaval. At best the two systems should be considered complementary. A rigid system of quantitative controls without complimentary measures in the fiscal and monetary field is bound to produce counter effects. To implement a policy of controls aimed at limiting imports and at the same time a policy of monetary expansion is bound to produce inflationary pressures and some of the commercial malpractices such as hoarding, blackmarketing, smuggling described above. Quantitative restrictions on imports for balance of payments reasons must be considered at best as short or medium term measures and when such measures tend to become a permanent feature of economic policy they reflect a fundamental structural disequilibrium in the economy. A developing country like Ghana with a very limited domestic productive capacity especially in intermediate and capital goods, needs a healthy growth in imports for economic development and such growth in imports can only take place within the framework of a dynamic growth in exports. In the following chapter attempts will be made to analyse the instruments of Ghana's export policies over the past two decades.

Chapter V

INSTRUMENTS OF EXPORT POLICIES

INTRODUCTION

Some of the main features of Ghana's economy and especially of her import-export trade discussed in chapter II can be summarized as a) high dependence of the economy on external trade, which implies that the growth of the economy depends to a large extent on a healthy export and import trade, b) the continuing domination of her export trade by a few primary products, and c) from the early sixties a persistent balance of payments deficit caused by a relatively stagnant export economy on the one hand, and a high propensity to import on the other.

Primarily, the development of the export sector of Ghana's economy has been basic to the country's economic growth, for apart from providing the means for the import of capital goods and services needed for development it accounts directly for about 15 per cent of the GNP on 1975 estimation and is a very major employer of labour. Successive Ghanaian governments have declared as the objectives of their export policies, the maximization of earnings from the country's traditional products by increasing their volume, by increasing their competitiveness, and stabilizing their prices on the world market; the promotion of vertical and horizontal diversification of exports; the expansion of Ghana's markets through among other measures closer trade and cooperation with the neighbouring African countries, more active involvement in regional economic groupings, and closer trade links with centrally-planned economy countries. This chapter will be limited to the analysis of the commercial policy instruments and techniques being employed in implementing the main objectives of export diversification, and export promotion. Other chapters will deal with the question of market expansion through regional co-operation and diversification of markets.

EXPORT DIVERSIFICATION

The diversification of the economy in general and of export trade in particular has been an official policy of Ghana as far back as the Guggisberg¹ era, early in this century. Defined within the context of Ghana's economy it should involve a reduction in the share of cocoa exports in the total export earnings, it could mean a declining share in total exports of primary products, implying the processing of raw products to increasing their export value, and creating entirely new lines of exports in manufactured goods. In its full sense diversification could involve an overall reduction in the dependence on imported commodities through the development of locally produced substitutes.

Reducing the over-dependence on cocoa exports within a positive policy of diversification implies the introduction of new export products. The snag however is that with most developing countries following similar policies of diversification it has often meant diversifying into each other's agricultural export commodities with its resultant over-production and fall in prices. This is partly the cause of the periodic over supply in the world market of primary products like cocoa, tea, coffee, rubber etc... It is for this and other reasons that the problem of export diversification should be considered as an integral part of a long-term development planning programme. Such a process assumes that the planners make careful and objective assessments of the probable future trends in world demand for both present and potential export commodities, so that a rationally-based programme of diversification into relatively expanding export lines can be drawn up, taking into account the country's available resources. For the purposes of clearer analysis, diversification as a policy will be considered from two main angles, namely the agricultural and the non-agricultural sectors.

Agricultural sector

It has been pointed out in chapter II that one of the major failures of the Ghanaian economy over the past two decades has been the failure to develop new agricultural products to augment the foreign exchange earnings from the traditional exports, namely cocoa and timber. Chapter II also discussed some of the possibilities for diversification in the agricultural export sector and part of this chapter will be devoted to some of the commercial policy instruments employed in this respect. Before this it might be convenient to discuss some of the issues in the export sector of the timber economy, a separate chapter will be devoted to cocoa, the main traditional export.

1) As early as 1919 Guggisberg, the then governor of Ghana can be found asking the Legislative Council "We have all our eggs in one basket. The cocoa baskets are full - what about the other baskets if anything goes wrong with the cocoa crop or the cocoa market?" This warning has since been repeated countless times. In 1953 the Economic Survey in its opening paragraph commented that the "reliance on the world price of cocoa and the volume of cocoa exports is outstanding and it is apparent that if the Gold Coast is to develop a prosperous and balanced economy a much broader basis of production has to be realized".

The timber industry and commercial policies

The main policy with regard to the exploitation of the country's timber resources is to maximize its rendering within the context of a general policy which also covers a rational utilization of a national resource which is not easily renewable. Translated into practical commercial policy objectives it has meant a greater volume of production, encouraging the exploitation of secondary species increasing the added-value in the industry through a greater degree of processing and instituting more efficient and competitive pricing and marketing practices.

In order to promote a greater volume of production it is imperative that a solution is found to the severe transportation problem¹ which has often assailed the industry. Transportation charges are now heavily subsidized by the government with regard to secondary species² in order to encourage their exploitation. The establishment of an import duty exemption list for the industry, as has been done for the mines, to cover essential machinery and spare parts and a rationalization of the import licensing system for spare parts. In order to increase the degree of processing the government has been encouraging the formation of larger and more integrated processing units in order to improve efficiency. More can be done in this direction by the provision of technical advice on management and technical problems. In 1973 the government banned the export of logs by foreign producers; this apparently discriminatory measure has however obliged the more efficient foreign firms to concentrate more on processing.

It is in marketing that the industry has its most intractable problems and part of this has been caused by attempts by the government to control the industry. In 1960 the Ghana Timber Marketing Board was set up as a controlling body with a mandate to centralize marketing procedures and curtail alleged malpractices such as under-invoicing and mis-labelling of wood on contracts. The management of the Board was for a long time handicapped by administrative incompetence due largely to the lack of expertise and by political interference. The inefficient attempts at control coupled with the government's ever changing policies on timber concessions and the participation of

1) Some of the transportation problems are caused by the recurrent congestion at Takoradi due to inadequacy of rail trucks to transport logs to harbour, irregular movement of ships, slow handling of logs once they reach the port, and lack of space in the log pond. In this connexion one must mention that the Government has increased the rate of subsidy on internal transport costs for all secondary species of timber from 33 1/3 per cent to 100 per cent.

2) Only about 30 species of timber are exported out of about 200 available in Ghana's forests and it is the policy of the Timber Board to diversify species produced and exported by encouraging the exploitation of the so-called secondary species.

foreign firms¹ had a negative effect on the industry and this led to a stagnation during most of the sixties. In 1972 the Marketing Board began vigorous inspection of contracts in order to check under-invoicing ; random checks of timber parcels for quality grading and lengths are carried out. However, attempts at a centralized control of contracts and export prices resulted in a price rigidity which had a negative effect on the competitive position of Ghanaian timber in the early seventies². The Ghanaian timber faces strong competition on foreign markets from other producers such as Nigeria, Gabon, Ivory Coast, Malaysia, Brazil³, Central African Republic, etc... This makes it imperative for the industry to pursue a competitive price and commercial strategy. For example, it appears irrational to subsidize an export activity and at the same time levy a tax⁴ on its exports. Another kind of competition is that faced in importing developed countries, from substitutes and synthetics, especially aluminium and plastics. Greater promotional efforts both at the national and international levels are needed to face such competitions and promote Ghanaian timber generally on foreign markets ; greater efforts are needed to diversify such markets especially in the neighbouring African savannah countries⁵, in North Africa and the Middle East and in the centrally planned economy countries.

1) In 1973 the government, in accordance with its policy of promoting direct government participation in certain major sector of the economy bought majority shares in most of the major foreign timber firms. This move has, among other things, helped in reducing pressures on the Government from Ghanaian firms who complain of unfair competition from foreign firms, accusing them of having required most of the best concessions under the colonial regime. While government participation should not be rejected outright provided it is efficient, a complete elimination of foreign participation in the industry will remove a powerful element of competition and efficiency.

2) At one point in 1974 Ghana's redwood plywood was selling at about £ 245 per cu. bd. metr, cif - the same as at the peak period of 1972-3. At the same time Nigerian redwood plywood was being priced at £ 210/cbm, Gabons £ 189, Malaysias and Singapores £ 188, and Spains £ 198 ("African Development" - August 1974 p. G 39).

3) For example the Brazilian species *Suatile* is often purchased by importers as an alternative to the Ghanaian mahogany.

4) Unlike the case of cocoa the tax on exports is not significant. At the time of writing the rate duty stood at 10 per cent for logs and at 5 per cent for sawn timber on f.o.b. export value. Even then it is questionable whether such a tax is necessary, since its place can be effectively taken by an excise tax. Unlike the case of the cocoa industry where the participation of hundreds of thousands of farmers exploiting often small and scattered farms makes the assessment and collection of excise or profit tax problematic this has not been the case with the timber industry where the number of participant is quite small. Until 1973 about 80 per cent of the export trade was in the hands of a few well organized foreign firms, who could be assessed for excise tax. Officials of the Marketing Board however claim that an export tax is easier to administer. When efficiently used the export tax can be also a useful regulatory instrument not only with regard to the volume but also the composition of exports ; for example to promote the export of secondary species. These arguments are however not very convincing.

5) In 1972 the GTMB established at Bolgatanga in Upper Region just below the Upper Volta border, the first in a series of lumber sales depots which were to be set up throughout Ghana to aid distribution and exports of processed wood to its neighbours and to make wood available on local markets.

AGRICULTURAL PRODUCTION AND EXPORT ASSISTANCE MEASURES

Agricultural protection and production support policies in one form or the other are practiced by most countries both developed and developing and probably more in the former in view of the availability of more sophisticated instruments at their disposal. Such policies and their means of implementation are normally tailored to suit the primary aims of agricultural policies in individual countries, and these are in turn determined by interrelated economic, social and political factors. In most developed countries a primary aim of agricultural policies is to maintain incomes in the farming sectors at levels comparable with those in other sectors ; related to this is the maintenance of income stability and greater productive efficiency. The social reason of preserving rural communities¹ and stemming the drift to urban centres is also a strong factor in many countries. Politically the farming community often forms a solid and rather conservative block whose loyalty is coveted by politicians and consequently often becomes the focus of special attention. The prerequisite of national security also sometimes obliges countries to aim at a certain degree of self-sufficiency in certain agricultural products. In developing countries most of the above factors are important but in addition the diversification and expansion of agricultural exports are major policy goals. Even more fundamental is the objective of increasing productivity to feed growing populations and supply raw materials for industry. Price stabilization especially for their export commodities is also crucial to many developing countries. Measures of protection and support on the one hand and of export aid on the other, although often distinct in features, do in reality often merge into and support each other. Thus at a certain level protection of domestic production may become so effective as to lead to production surpluses for export and similarly measures of export aid often tend to protect incompetent domestic production.

These measures differ from country to country. With regard to imports, measures range from tariffs, variable levies, quantitative restrictions, to health standards, sanitary regulations and State trading. Measures affecting production often include price and income stabilization and guarantee, the subsidization of the factors of production and marketing arrangements. Export aid measures may include direct subsidies to exporters ; export restitutions ; deficiency payments and comparable producer price support arrangements ; government export credit guarantees ; State trading practices etc... It must also be stressed that production assistance in the context of developing countries often has a larger sense than in a developed country and can take the form of hidden subsidies such as the provision of infrastructural, and research facilities, and extension services.

¹ Issues in World Farm Trade - The Atlantic Trade Study (Trade Policy Research Centre - 1970) p. 39.

*Instruments and measures
for the promotion of agricultural production
and exports in Ghana*

Infrastructural aid

The physical problem and the financial cost involved in the transportation of products to the buying and distribution centers is a major bottleneck in particular with regard to cocoa and perishable commodities. The general policy of the government in this regard is to build an extensive network of feeder roads connecting farming areas with the principal road systems. The Cocoa Marketing Board is active in this field especially in the cocoa producing centres. The situation with regard to the organization of transportation differs from sector to sector. The Cocoa Marketing Board is wholly responsible for the transportation of cocoa and other minor agricultural export products, from the buying and storage centres to the ports of export. Here one can hardly speak of a subsidized service since the producer prices paid to the farmers are such as to leave the Board enough to cover such services and other administrative expenses. Much remains to be done in helping farmers to transport their crops from farms to the buying centre. A good model is provided in this regard by the Ghana Tobacco Company which buys directly from the farms and thus saves farmers a major problem. The Company provides other services including guaranteeing credit on easy terms, provision of seeds and help in constructing barns, etc...¹ The situation with regard to food crops has been quite chaotic although attempts have been made recently to improve it with the establishment in July 1970 of the Ghana Food Marketing Corporation charged with the distribution and marketing of domestic foodstuffs².

Agricultural research

Agricultural research in Ghana is mostly the responsibility of the government and is implemented through the Council for Scientific and Industrial Research (CSIR), the Faculty of Agriculture at the University of Ghana and the Kumasi University of Science and Technology and the services of the Ministry of Agriculture. Despite attempts at co-ordination one of the drawbacks of the present situation is the lack of real co-ordination in the practical sense. Each of the research institutes, the Crop Research Institute and the Soil Research Institute at Kwadaso near Kumasi, the Forestry Products Research Institute, the Cocoa Research Institute at Tafo, the Animal Research Institute in Accra, appears to operate as an independent unit with a minimum of coordination or guidance in establishing research

1) Other services offered by the company are the free supply of insecticides and fungicides for farmers nurseries, and the provision of mechanization services to farmers.

2) In March of the same year a National Task Force for food distribution was established on an emergency basis. This was later replaced by a Food Distribution Corporation.

programmes and priorities among projects. A result of the fragmentation of effort is the inefficient utilization of scarce resources represented by trained workers. On the whole there exists a relatively developed infrastructure for research : the basic problem is the failure so far to design and implement integrated programmes of research, extension and training focussed on a carefully selected package of innovations and concentrated on those crops and areas where the highest returns can be expected.

Other services

The Ministry of Agriculture carries out extension services of various kinds ; its Crop Production Division carries out farm advisory work for crops other than cocoa and is responsible for the distribution of some inputs notably seeds and fertilizers. The Cocoa Division which has now been transferred to the Cocoa Marketing Board has been in charge among other things, of disease control which has been mostly done through the cutting out of diseased trees and spraying¹.

The spraying of trees has now become the personal responsibility of individual farmers who are supplied with spraying machines and insecticides at subsidised prices. The Mechanization and Transport Division of the Ministry of Agricultural operates a tractor hire service for land preparation and land clearing at heavily subsidized rates. A seed multiplication body has been created to prepare seedlings which could be made available to individual farmers at subsidized prices. Fertilizers are provided either free or at heavily subsidized prices.

Credits for farming are offered not only by the Agricultural Development Bank the Co-operative bank, and rural banks but also by the ordinary commercial banking institutions which have been taking an active role in agricultural financing. To reduce the cost of agricultural implements and machinery, the customs duties on these as well as their spare parts have been removed² and they have been exempted from import restrictions. Insurance facilities for farmers are however not existent.

Ghanaian agriculture, as illustrated above, is well supported by various production aids and subsidies, both with regard to the production of domestic foodstuffs and export crops, even though often not well organized. There are no however direct export subsidies with the exception of the export bonus scheme which will be later discussed in greater details ; it was introduced in 1971 and applies to both agricultural and manufactured products.

1) With the creation of a separate Cocoa Ministry in January 1975 most of the production assistance services provided by the Cocoa Marketing Board are likely to be transferred to it so that the Board could concentrate on marketing.

2) Revised budget announced by the NRC on the 26th February (1972).

Price incentives

A stable price system maintained at a remunerative level is perhaps the best incentive for agricultural production and this is valid for products for domestic consumption as much as for export. This is a field where much needs to be done in Ghana. With regard to domestic foodstuffs the Ghana Food Marketing Corporation attempts to establish a fixed price list, during the harvest season, at which products are to be sold and attempts are being made to institute a centralized buying and distribution system. There is no guaranteed price system with provision for deficiency payments when prices are low through surplus production or for stocking and sales from stocks when necessary. The situation is rather chaotic¹, due to the absence of the basic elements for maintaining a guaranteed system and prices on the market scarcely keep within the official ranges. Minimum price mechanisms do work in situations of surplus production where there are tendencies for price to decline; in the contrary situation of production short-fall which is often the case in Ghana "administrative pricing" which often does not reflect the real market situation, leads to smuggling, hoarding and the discouragement of production.

THE MANUFACTURE SECTOR

Manufactures other than those from cocoa and timber processing industries account for an insignificant part of Ghana's exports. As the domestic market in manufactures becomes satisfied by local plants attention is being turned to the utilization of the extra capacity for exports. Thus attempts are being made to promote new items, such as aluminium household utensils, wax prints, alcoholic beverages, travel goods, steel wire nails, clothing and undergarments, basketware, cosmetics, electrical goods such as televisions and radio sets and fluorescent lamp holders. Despite promotional efforts in neighbouring African countries, in respect of industrial manufactures, medium and long-term prospects appear to be with the export of processed agricultural and industrial raw materials to developed countries. Some of the problems which face the promotion of manufactures in external markets are discussed below while the major commercial policy issues which touch Ghana's trade in manufactures with the outside world are examined in later chapters. Production problems in this sector have been discussed in chapter II.

1) During the 1971-72 Budget statement the Minister of Finance announced the establishment of "support price arrangement for such commodities as rice and maize which he explained to mean that if the farmer cannot find on the free market prices which reached the level of the support prices, the government was prepared to pay him that. Minimum prices are in theory maintained for vegetable oils, especially palm oil and most domestically traded food products sometimes at prices much higher than world prices, due to short supply on the local market. Before any of these can appear on the world market not only should there be a substantial rise in production but also local prices should be competitive.

Fiscal and other incentives to exports¹

Various fiscal measures have been taken to encourage exports especially of manufactures and other non-traditional exports. The major ones have been customs duty drawbacks, waiver of taxes on goods destined for export, credit insurance schemes company tax rebates and tax holidays, and the recently instituted export bonus scheme. Most of these measures are almost self-descriptive, however the export bonus scheme deserves a more detailed discussion by virtue of its novelty.

Export Bonus Scheme

The Export Bonus Scheme² is probably the most far reaching export incentive measure introduced in Ghana in recent years.

The Scheme was introduced in 1971 through the foreign Exchange (Export Bonus) Act 1970 Art 357. The Act provided for the payment of a 20 per cent Bonus in cedi to exporters of all non traditional export products who actually surrendered their foreign exchange earnings to the Bank of Ghana. The Bonus Scheme was withdrawn in December 1971 as part of the economic rationalization policy implemented by the government and which had as its central measure a 48 per cent devaluation of the cedi. The scheme was reintroduced in the course of 1972 when the new government, in reverse of the policies of the previous one, revalued the currency and reintroduced direct restriction and other forms of state intervention.

There have been too many changes in the scheme since its introduction to enable any meaningful evaluation of its effects to be made but it is clear that in some cases a subsidy to the tune of 20 per cent might make a difference to the competitive strength of exports. On the basis of some exploratory work done, the Ghana Export Company advanced that due to the high costs of production of Ghanaian products, freight costs and packaging costs as well as the presence of discriminating tariffs in neighbouring countries, a subsidy between 30 and 35 per cent was necessary to push Ghanaian products in the neighbouring countries. The subsidy may also induce export activities formally conducted illegally to be passed through legal channels. It must be pointed out, that the scheme like all direct subsidies is a charge on government exchequer and consequently on the tax-payer.

1) For a discussion of some theoretical and practical aspects of the use tax incentives for export, see "Tax Incentives for Export" by Israel Gal-Edd in *Journal of World Trade Law*, Vol. 5, No 3 (May-June 1971, p. 315-330).

2) Export subsidies especially where they affect industrial goods are formally prohibited by Article XVI of the GATT. Most developed contracting parties have accepted commitments not only to dismantle existing export subsidies but also to observe a "standstill" with regard to the introduction of new measures. Developing countries have generally refused to accept commitments under this Article.

Taking a hypothetical case, exports of 10 million cedis¹ eligible for subsidy of 20 per cent will cost the government ₵ 2 million. It is thus questionable whether it is justifiable for the tax-payer to be asked to bear the cost of the profits pocketed by the exporters. Against this may be stated the long term benefits which might accrue to the country as a whole in any major break through in this sector. The scheme should however not be used as an instrument for protecting inefficient exports. There is a strong case for limiting beneficiaries to producers and manufacturers who make a net contribution to foreign exchange earnings.

Other incentives to production and export²

Bonded warehouse facilities for exporters are provided at the expense of the government. Another measure is the automatic restitution of import licences utilized for the requisition of raw materials used in the manufacture of goods destined for export. Export financing and insurance facilities are so far only rudimentary in nature and only the well established firms can take advantage of them, leaving the small and rather more needy ones to cater for themselves or bear the risks and difficulties involved.

In the 1974/75 budget the government introduced what may be considered a new financial incentive scheme. Under this scheme foreign companies whose profits have not been repatriated because of the country's foreign exchange controls, are encouraged to invest part of such profits in agriculture and consequently benefit from a new transfer arrangement.

ORGANIZATION OF EXPORT MARKETING AND PROMOTION

No central authority exists responsible for the organization and marketing of Ghanaian exports. Private enterprises are responsible for organizing the export of their own products. Various Marketing Boards and State Corporations are responsible for organizing the export of certain major commodities. The State Diamond Marketing Corporation and the State Gold Mining Corporation are charged with the marketing both inside and outside of Ghana, of the items in question. The GIHOC which replaced the former State Enterprises Secretariat is responsible, for among other things, the marketing of the products from the various State enterprises (boat yards, brick and tile, cannery, cocoa products, distilleries, electronic products, glass, marble, metal, paints, textiles, vegetable oils, fibres bags, steel products, paper conversion, footwear, sugar and meat products).

The Ghana Timber Marketing Board, as has already been discussed above, has the responsibility of supervising the export trade in timber

1) Figures published by the Bank of Ghana show that in 1974 and 1975 payments of the bonus amounted to ₵ 1.3 m. and ₵ 1.9 m. respectively.

2) At the time of going to press, an Export Processing Zone (Free Trade Zone) was in the process of being created at the port of Tema to promote export oriented manufacturing.

products while actual exporting is done by the various timber firms. The biggest exporting institution is by far the Ghana Cocoa Marketing Board, which is responsible for the marketing of most agricultural exports. In addition to cocoa, the Board is also responsible for the exports of palm produce, coconut produce, shear-nuts and butter, coffee, groundnuts, bananas and kola nuts. The structure and functioning of some of these state institutions will be discussed in greater details in a later chapter.

Export promotion

The strategy of the government (NRC) on export promotion has been summed up as follows.

“ In the short term markets would be explored for the immediate sale of readily available goods of both agricultural and industrial concerns. In the medium term encouragement will be given to product adaptation both in the agricultural and industrial fields to suit the requirements of foreign markets, and in the long run the resuscitation of the economy towards export and the identification of additional commodities for export such as cassava (chips), ginger, pine apples, kola nuts, bananas, yam, citrus fruits, avocado pears and tobacco ”.¹

There are two main official bodies responsible for the promotion of Ghanaian exports. They are the Export Promotion Council and the Export (Promotion) Company. The Export Promotion Council which is under the Ministry of Trade has taken over most of the functions formerly performed by the Research and Export Promotion Division of the Ministry of Trade ; among these are the following :

- a) Identify all products with export potential and to determine for these products the location and extent of possible overseas markets;
- b) To call attention of potential customers to the availability of goods of Ghanaian origin, organize trade fairs in Ghana and Overseas and to attend foreign trade fairs to promote the sale of Ghanaian Products ;
- c) To provide the link between the principals involved (Ghanaian sellers and foreign customers) in exploratory discussion ;
- d) To create interest in and goodwill for Ghanaian products by promotional activities which may include advertising, exhibition, and providing information ;
- e) To make available advice and assistance to Ghanaian exporters in matters in which they are insufficiently experienced such as export procedure, credit and collection arrangements, shipping documentation, marine insurance, etc...

Other functions of the Council include recommending trade agreements and pacts which will have the effect of promoting the sale of Ghanaian goods in overseas markets and organizing credit insurance to Ghanaian exporters especially those engaged in trade in

¹ See “ Third Year in Office of Col. I.K. Acheampong 1974-75, published by the “ Office of the Press Secretary to the National Redemption Council ”, p. 321.

non-traditional items. In effect the Council is responsible for most of the functions of a model export promotion organization and if well organized and established, should offer invaluable services to exporters.

An examination of the Council as at present constituted, shows, that it can't effectively perform many of the functions assigned to it. It lacks the organizational structure and experienced manpower needed for an effective performance of its function, however these can be considered as only temporary deficiencies.

The Ghana Export Company was established by the Bank of Ghana, in partnership with the government and private enterprise, a) to market "Made-in-Ghana" goods overseas; b) to perform other functions relating to the promotion of exports as may be referred to it by the Export Promotion Council. The activities of the Export Company have not had any significant impact on the export effort; poor staffing, supply problems, government interferences in pricing have been some of its handicaps.

The existence of two governmental export promotion bodies does not appear to be justifiable in the present state of affairs. As the essential problem lies not in the provision of promotional service but in export production and planning, there is a strong case for abolishing the Export Company as present constituted and amalgamating parts of its activities within a strengthened and better-staffed Export Promotion and Development Council. This body should not only provide the traditional export promotion service but should work closely with the Ministries of Industries, Agriculture, and Planning and the National Investment Board in planning and developing specific sectors of export production. Meanwhile one can advise a change in the present strategy of across-the-board effort in export promotion in favour of concentrating on a few areas where the availability of local production inputs and raw materials provides the basis for an efficient and competitive export production.

Other promotional services

As part of its export promotional effort the Ministry of Trade maintains trade offices in major trading centres and commercial counsellors are attached to most of Ghana's diplomatic representations. The officers at the trade centres and embassies carry out various market research services, collect trade information of all kinds, settle dispute between Ghanaian traders and their external partners and generally promote good trading relationships between Ghana and the various countries or regions in which they serve. The Trade fair Branch of the Ministry is also responsible for organizing trade exhibitions and fairs in Ghana as well as Ghana's participation in such fairs and exhibitions in foreign countries.

The National Standard Board

One of the major problems facing Ghanaian exports is the need not only to compete in quality and price levels with foreign and domestic products in external markets, but also to conform to various stringent standards and regulations in importing countries. In this respect the services of the National Standard Board is becoming significant. The Board is charged with the responsibility for establishing standards of quality of products and ensuring that all products from Ghanaian factories comply with these standards ; in addition goods imported into Ghana are expected to comply with the standards established by the Board. Unfortunately external interferences¹ and the shortage of qualified staff, of the necessary instruments and equipments have tended to reduce the Board's efficiency.

SOME GENERAL PROBLEMS OF EXPORT DEVELOPMENT AND PROMOTION

As has been illustrated amply above, instruments for export promotion are not lacking, the problems facing Ghana's efforts at export development arise mainly from basic policies and their implementation as well as from organization. One of the main features of the economy in the last few decades has been the absence of a coherent policy of export development. In the years immediately before and after independence such a policy was probably not considered urgent in view of the healthy foreign exchange reserve situation. Things were not helped by the emphasis during this period on an import-substituting industrialization policy which led to a neglect of the traditional agricultural sector, and later a worsening balance of payment situation which meant that the preoccupation of policy makers was more with measures for controlling imports and allocating foreign exchange. This should not be interpreted to mean a total absence of an export policy since all the development plans emphasised the need for maximizing export earnings and diversifying export production. What has been lacking is a coherent policy oriented towards export development, its elaboration and implementation. The result of this has been the absence of the elementary policy measures necessary for a healthy export development in a competitive international trading world.

Access to markets

Looking at the other side of the fence, it should be pointed out, that a major obstacle to Ghanaian manufacturers in many foreign market has been the presence of a host of tariff and non-tariff barriers to trade. With the development of regional economic groupings mostly

¹ There have been instances where outside pressures have been exercised on the Board to certify products which should normally be refused (Statement from an official of the Board).

in the form of customs unions and free trade areas, tariff barriers have tended to be discriminatory in nature sometimes in favour of countries whose exports are highly competitive with those of Ghana. The Post-war series of tariff negotiations in the GATT culminating in the Kennedy Round (1964-1967) and the recently instituted Generalized System of Preferences and especially the recently concluded Lome Convention have reduced the relative importance of tariffs as barriers to imports in developed countries ; there are however some sensitive sectors where the remaining tariffs still constitute a major obstacle.

Non tariff barriers

In developing countries high tariffs are still the order of the day, and form a formidable obstacle in the development of trade among themselves. What is now engaging the attention of the trading community is a host of non-tariff barriers whose presence has become prominent as tariff barriers diminish in importance. They range from quantitative import-restrictions export restraints, export subsidies and internal charges, to standards health and sanitary regulations and government procurement practices. For example while many of Ghana's agricultural exports are subject to duty-free entry into many developed countries almost all of them are subject to general consumption taxes and some of them to excise taxes. For example the Value added Tax in the EEC ranges from 4 to 33 per cent, while excise taxes in some of the member countries reach as high as 100 per cent and over. Recent efforts of Ghana at exporting textile products to the United States and a number of European countries have been met with import quotas. Another example may be given in connection with standards. According to the regulations of the Food and Drug Administration¹ of the United States chocolate products are subject to 14 " standards " regulations concerning identity ; canned fruits and fruit juices 68 ; shrimps and mussels 16 ; canned fish 5.

Efforts to reduce some of these barriers to trade are being organized at the international level through multilateral negotiations and regional arrangements. As a member of many of the international organizations involved in these efforts, Ghana stands to benefit from any concessions and agreements which will be arrived at ; much will also depend on her own unilateral efforts at expanding her external markets and pursuing policies beneficial to her international trade relationship with other countries. Some of the main issues involved in these fields of action will be examined in greater detail in later chapters.

OTHER PROBLEMS : EXPORT PRICE STABILIZATION

In primary commodity export economies the maintenance of export prices at remunerative levels coupled with a continuous

¹ See the Code of Federal Regulations No 21 (Sections 14, 27, 36, 37). (United States Government).

growth in export volumes are the basic determinants of a continuous growth in export earnings, one of the basic variables for economic planning in developing countries. For Ghana which depends to the extent of about 65 per cent on one tree crop, cocoa, for her export earnings the problem is not only that of wide fluctuations in prices but also in export volumes. There are constant fluctuations in export earnings which have a short-term destabilizing effect on the country's importing capacity and consequently on its development planning. It is also significant that the major political upheavals in Ghana in 1966 and 1972 were preceded by serious setbacks in the balance of payments situation. Export price stabilization has been an element of Ghana's commercial policies since the depression years of the nineteen thirties when the catastrophic fall in cocoa prices and the market disruption which followed caused Ghanaian farmers to refuse to sell their produce. This set in motion a chain of events which were to lead in 1947 to the creation of the Cocoa Marketing Board. In the next chapter attempt will be made to analyse Ghana's commercial policies with regard to cocoa and especially the efforts at stabilizing world cocoa prices. The objective in this section is not only to consider the export price situation with regard to Ghana's other primary products but also to situate the whole problem within the wider context of the country's economic policies.

Methods for controlling price fluctuations, achieving price stabilization, and reducing the rather arbitrary and often disastrous consequences of changes, depends on the process of price determination. Either prices are set by a producer cartel as has been the case with petroleum since late 1973, or by world supply and demand (implying a fairly perfect international market). In fact aggregate commodity prices are closely associated with the level of output and demand in the industrial countries. No attempt will be made here to open the debate on the necessity or not of commodity agreements but the emphasis will be on the mechanics of price determination and stabilization as they affect Ghana's export products. Despite the importance attached to export price stabilization Ghana has never really had a well defined national policy on it, except for cocoa, nor devised the appropriate instruments for it. There has been no clearly stated policies on this, setting out the national objectives, the advantages and disadvantages of such policies and the means of attaining them. A major reason for this might be the relatively low share of Ghana in the world trade, in her export commodities other than cocoa, and the fact that most of them have not so far been the object of concerted efforts at price stabilization at the international level; for on the whole, Ghana has preferred to pursue such policies within an international framework.

Almost all of Ghana's major export commodities, other than cocoa, such as timber, manganese, bauxite, operate in what is considered free markets, in which prices are at the complete mercy of market forces as well as speculation. Being industrial raw materials, their demand is highly influenced by the level of economic activity in industrial countries and is therefore quite elastic. In the case of

timber one cannot even speak of a world market price but ranges of prices, in view of the multiplicity of species involved and the subsequent fragmentation of the market. This lack of homogeneity which provokes a strong element of cross substitution and competition among various species and their producers renders any policy of price stabilization almost impossible¹. Another factor is the intense competition which timber and timber products face from substitutes such as plastics and aluminium. Exporters of timber can at best prop up the world price of their products by improving on the quality of their exports to enable them better face competition from substitutes, exploring more end-uses and expanding market through export promotion, and co-ordinating general production and marketing policies. Regional efforts at increasing cooperation² among producing countries and avoiding competitive price cutting policies may also help.

Of Ghana's other exports only coffee and rubber are subject to any price regulation at the international level. Ghana, although a very minor exporter of coffee is party to the International Coffee Agreement which enjoyed a period of success from 1963 till 1972 when it collapsed under the strain of dissensions both among producers and between producers and consumers. As a minor exporter of rubber, Ghana can only follow market price trends. With regard to diamonds which is a commodity of major export interest to Ghana, the price control system is based on a cartel similar to a marketing board but on a global scale. The Central Selling Organization of London entirely controls the marketing of diamonds and therefore the world price³. A cartel type of price fixing can be successful either when a single country or group of countries has an overwhelming share of the world market supply. A most recent example is the OPEC which has been able to raise oil prices by more than 400 per cent in the single year of 1974. Since the OPEC success producers of many other commodities such as phosphates, bauxite, iron ore and copper have been attempting to set up similar organizations in order to influence prices.

1) Commodities suitable for the international agreement approach of the more comprehensive kinds would seem to fall into a category with the following characteristics : a) the demand is relatively inelastic - that is, the demand does not change markedly in response to changes in prices ; b) the supply over the short-term, does not respond strongly to changes in prices ; c) the product itself is relatively homogeneous and is not subject to strong competition from alternative products or synthetic substitutes.

2) At a conference of African timber exporters held late 1974 at Libreville (Gabon) it was decided to create an inter-African organization to foster co-operation and harmonization in the timber trade of member countries. An example of such co-operation was the decision at the conference to make a joint protest against an announced 25 per cent increase in freight charges of UK-West Africa Lines. (" West Africa " of 10th February 1975, p. 168.

3) Ghana is one of the few major producers among the market economy countries which do not sell through the CSO, a decision taken for political rather than economic reasons due to the control of the CSO by De Beers of South Africa. Although Ghana sells directly to dealers it is apparent that she benefits from the umbrella of price stability offered by the CSO. On the other hand she does not enjoy the same market security as members of the CSO.

In spite of the paucity of international commodity agreements and arrangements and the rather modest record of those that had existed, the international community has not lacked ideas on the problem of stabilizing commodity prices and export earnings of exporters of primary products. Recent proposals have included arrangements aimed at indexing the prices of primary commodities on the basis of the rate of inflation in industrialized countries, and at an integrated approach to commodity problems¹. Of immediate and direct interest to Ghana is the new arrangement for stabilizing earnings from commodity exports negotiated within framework of the Trade and Co-operation Agreement between the EEC and the group of African Caribbean and Pacific countries² and which in some ways resembles the Export Compensatory Financing Scheme operated by the IMF since 1963 but rather poorly utilized until recently.

Remedies for the problems of export price and earnings fluctuation have to be sought at both the international and the national levels. As has been pointed out above, international action is possible through the prevention of pronounced economic fluctuations in the industrial countries, the "compensatory" flow of capital to underdeveloped countries from developed countries and from international financial institutions, and the operation of commodity stabilization schemes. The possibility of international action should not relieve any country from taking appropriate action at the national level. It is incumbent on governments faced with commodity problems to manage and control production in relation to world market situation, which is not always easy especially where tree-crops are concerned. Discipline and sacrifice are often demanded. Even with a commodity which is traded in a free market the domestic policies of individual producing countries can have a stabilizing effect on prices especially where the country involved happens to be a major exporter; a heavy export tax on the commodity can discourage production and hence supply and prices on the world market. Where the commodity is also heavily consumed domestically it may sometimes be necessary to impose a tax on domestic consumption in order to enable export commitments to be fulfilled and earn foreign exchange. Similar discipline is called for even when a country becomes signatory to a commodity agreement. Member countries may have to accept a number of obligations such as reporting on export sales, accepting periodic checks on movement of commodities, keeping strictly to export allocations, refraining from selling at preferential prices to non-mem-

1) The proposal for an integrated international approach to commodity problems first discussed at the meeting of the UNCTAD Committee on Commodities in February 1975 comprised as a core, a) establishment of international stocks of commodities, b) the creation of a common fund for the financing of international stocks, c) the building up of systems of multilateral commitments on individual commodities, d) improved compensatory arrangements, e) measures aimed at removing discrimination in trade against processed products. (See UNCTAD document TD/B/C.1/166).

2) See chapter 10 for the outlines of the EEC, Export earnings stabilization scheme in favour of the ACP countries (STABEX).

ber countries and accepting such controls and measures as the organization will take following the general conditions of the market, such as complete suspension of sales or stocking.

In the long term the most effective policy which a "single commodity" economy like that of Ghana faced with violent fluctuations in foreign exchange earnings can adopt in view of the rather poor record of international commodity price stabilization schemes will be to diversify the export base of her economy. As has already been pointed out such diversification can take the form either of introducing new primary commodities with potential for dynamic growth on the world market or export oriented industrialization which in the immediate circumstances of Ghana should imply the processing of primary commodities and low technology manufactures.

In this chapter attempt has been made to piece together what can be considered as the instruments and strategies of some aspects of Ghana's export policies, with special emphasis on production, pricing and marketing, during the first two decades of independence. During this period the structure of Ghana's export economy did not undergo any major change, apart from a higher degree of processing for the main traditional products cocoa and timber. The inherited monocultural colonial export economy has remained almost intact for the simple reason that there has not been an elaborate policy of agricultural export diversification. In fact, agricultural production both for domestic consumption and exports was largely neglected. Social attitudes, inappropriate education policies, neglect of rural development, and especially pricing and tax policies which killed incentive, bore a great part of the responsibility for this situation. While substantial strides were made by the country in import substitution industrialization it could not form a viable basis for export development, due mainly to its inherent drawbacks, and export promotion for which appropriate measures were not lacking often appeared to be an exercise in futility.

Chapter VI

THE COCOA INDUSTRY AND COMMERCIAL POLICY¹

INTRODUCTION

As the principal export product of Ghana, contributing an average of 65 per cent to Ghana's total export earnings, cocoa occupies a cardinal place in the country's trade policy in particular, and economic policy in general. The general trade policy towards cocoa can be summed up as aiming at the maximization of its export earning. Such a policy could have many ramifications involving both external and internal factors. The main factors which directly influence the level of Ghana's earnings from cocoa exports are, on the one hand, a fluctuating world cocoa price, and on the other, a volume of production which has also been fluctuating in a downward trend during the last ten years. A policy of maximizing cocoa export earnings could not only imply a short term objective of maintaining stable and remunerative world prices through a healthy balance between demand and supply on the world market, but also a long term policy involving planned production based on long term trends of world demand and supply conditions, and aimed at maintaining the country's leading

1) *Economics of Cocoa*

There is no dearth of literature on most of the subjects treated in this chapter. On Marketing Board policy, P.T. Bauer's *West African Trade* (reissued London, 1963) is of great importance. Consult also articles by Bauer and F.W. Paish and a number of critical comments in the *Economic Journal*, December 1952, June 1953 and December 1954. See also the following contributions by R.H. Green : " The Ghana Cocoa Industry : An Examination of Some Current Problems ", *Economic Bulletin of Ghana*, Vol. 5, No 1 (May 1961) ; " Ghana Cocoa Marketing Policy, 1938-60 ", *Nigerian Institute of Social and Economic Research Conference Proceedings*, December 1960 ; " Multi-Purpose Economic Institutions in Africa ", *Journal of Modern African Studies*, Vol. 1, No 2 (1963), and an article by G.K. Helleiner in *The Economic Journal*, September 1964, The Food and Agriculture Organization of the UN has produced a substantial literature on the world cocoa market, principally : A. Viton's *Cacao : A Review of Current Trends in Production, Price, and Consumption*, FAO Commodity Series Bulletin No 27 (Rome 1955) ; *Review of the World Cocoa Economy and the Work of the FAO Cocoa Study Group* (FAO, Rome, 1963); and the *Reports and publications of the Cocoa Study Group*. The *Cocoa Conference* reports are also recommended. See also UNCTAD document TD/B/GI/132 of 1972 later revised as document TD/B/C-1/164 of 9 January 1975. For other general studies on cocoa see " The Dynamics of the World Cocoa Market by F.H. Weymar (M.I.T. - Cambridge - 1968). For statistics on cocoa, see FAO, *Cocoa Statistics* ; *Cocoa Market Report* Gill and Duffuss, London ; and more recently the *Bulletin of the International Cocoa Organization* - London since 1973.

position in production and trade. Maximizing export earnings from cocoa has also meant for Ghana, vertical diversification aimed at an integrated industry with the ultimate objective of increasing the value of its exports through processing.

Whilst these may be considered as the main threads in Ghana cocoa policy they have so far not been woven into consistent and comprehensive plans and actions, for reasons which will be later discussed in greater details.

Policy agents

Until recently Ghana's cocoa policies were implemented through the agency of a number of separate autonomous and semi autonomous bodies, research organizations and Ministries. The foremost body is the Cocoa Marketing Board which is responsible for the purchasing, grading and the local processing of the crop in Ghana, its subsidiary, the Cocoa Marketing Company is responsible for handling all sales on the world market. Until 1975 the CMB was under the overall policy control of the Ministry of Trade. On the production side are the Cocoa Research Institute of the Ghana Research Council at Tafo (formerly the West African Cocoa Research Institute) which has been in charge of research into cocoa diseases and seed improvement, not forgetting the research faculties of the universities and the Ministry of Agriculture whose Cocoa Division has been concerned with disease control, implementing improved methods of production and programmes for rehabilitating cocoa farms. In 1972 a move was made towards a rationalization of the institutional framework of the industry when the CMB was made the principal instrument of the country's cocoa policy, grouping under it some of the institutions mentioned above. Alarmed by the dwindling share of Ghana in the world cocoa trade, the government created, early in 1975, a separate Ministry for Cocoa with the overall mandate of reinvigorating the industry. More specifically, the creation of the new Ministry should enable the CMB to concentrate on its essential function of implementing the external aspect of the cocoa policy. The policies of the CMB will be discussed later in this chapter. The creation of cocoa Ministry a few years after the restructuring of the CMB, is another example of the constant changes in policies observable in Ghana during the last two decades, with a negative effect on efficiency. A conflict of authorities has also been observed between the new Ministry which is supposed to have an overall policy supervisory mandate and an executing body (CMB) with decades of experience in the industry.

PRICE INSTABILITY

The world cocoa market is known for its high price instability. There are frequent swings in prices from year to year, and within each year prices can fluctuate quite sharply from month, week to week and even day to day. For example within the decade 1965 and 1975 prices have fluctuated from an all-time postwar low of \$ 250 per me-

tric ton, after reaching a height of \$ 1,550 p.m.t. in 1954, to a peak of \$ 2,700 p.m.t. in 1974 only to fall again to below \$ 1,000 p.m.t. in 1975.

Underlying factors in price formation

Cocoa like some other internationally traded commodities like copper, silver, all base metals, is traded in a " free " market. Cocoa prices, their fluctuations and general trends are determined not only by the complex interaction of world demand and supply factors but also more directly by the operations of terminal markets and their accompanying speculative activities. The next few paragraphs will be devoted to these two aspects of the price formation process.

Demand factors

The demand for cocoa is a derived demand ; that is, derived from the demand for chocolate, drinking chocolate and the other commodities which contain cocoa. Relevant to this is the low short term price elasticities of demand. The FAO calculated price elasticities for the period 1957-1959 of between 0.25 (US and Canada) and 0.4 (EEC and Britain) among the major consumers. Earlier econometric studies by Viton¹, of the FAO Secretariat, had suggested elasticities of 0.5 to 0.6 as typical of the high income consuming countries. The exception to the low price elasticity of demand is the Netherlands which has a large cocoa export industry. A number of factors have been advanced to explain the low price elasticity of demand in industrialized countries.

For one thing, a high proportion of world cocoa sales are forward sales and there is likely to be a time-lag between changes in spot prices and future prices, thus dampening the short-period response of demand to price. Also the manufacturers of chocolate products normally carry stocks of cocoa equivalent to several months' consumption, which further insulates chocolate consumers from short term changes in the cocoa price. Again, some manufacturers prefer, if possible to hold their retail prices steady (although some disguised price changes take place, in the form of variations in the size of chocolate bars, and in quality) and may on occasion be prepared to tolerate lower-than-normal margins after a rise in cocoa prices, recouping themselves when prices fall.

Medium and long term elasticities of demand are higher than those mentioned above ; ultimately chocolate prices are likely to move in sympathy with secular trends in the world cocoa prices unless there are large compensatory movements in the prices of other

1) A. VITON " Cocoa : A Review of Current Trends in Production, Price and Consumption, FAO Commodity Series Bulletin No 27 (Rome 1955). For a more recent study see " Price Elasticity of Demand for Ghana's Cocoa " - " Some Estimates and Policy Implications " by A.G. Blomqvist and W. Haessel (The Economic Bulletin of Ghana - Vol. 2, No 3, 1972).

inputs. The price elasticity of final consumer demand for chocolate products, though still not really large, is above the manufacturers' short period elasticity. Two studies¹ suggest final consumer elasticities of between 0.6 and 0.8 in one case and between 0.5 and 1.2 in the other. In other words, when a change in the world cocoa price transmits itself to the consuming public their reaction is sharper than the initial reaction of the manufacturers themselves, thus imposing on the latter the need for further adjustments. One form of such adjustment has been to reduce the cocoa content of their output. This has been along three lines².

- a) by changing the firm's product mix away from chocolate in favour of sugar confectionery or other products ;
- b) by reducing the cocoa content of chocolate products through the promotion of filled blocks and other lines with a relatively low cocoa content ;
- c) by intensifying the search for substitutes for cocoa butter and cocoa flavour, and raising the proportion of such substitutes in the composition of their final product.

With regard to income elasticities, studies by Viton of the FAO show that they are generally positive but these and other recent studies suggest that above a certain level of per capita income, the height of which will not be the same for all countries, the responsiveness of demand to further increases in income falls sharply. In fact in certain years consuming countries were shown to have zero income elasticities. In short both the price and income elasticities in the major consuming countries are rather low, at any rate less than unity. One practical implication of this is that any substantial changes in consumption should be explained by factors that can be put under the label of "changes in taste", or consumption patterns.

Some conclusions can be drawn from the above analysis of demand. " Firstly, the producing countries cannot look with any great confidence to efforts to keep low the cost and price of cocoa as a way of achieving a major expansion of demand. But also, given the uncertainty of the long term price elasticity of demand for cocoa by chocolate manufacturers, any restrictive monopolistic agreement between producers would be hazardous, although perhaps quite effective in the short run, with the element of risk greater for prices maintained at really high levels than for prices kept only moderately above what would otherwise be the market price³. Secondly, producers cannot look to economic growth in the countries that are already the major consumers to provide a major expansion of the world market. Areas of potential expansion appear to lie in the lower income countries with good prospects of sustained economic growth, as well as the countries of Eastern Europe and the Soviet Union. This

1) (i) VITON, *op. cit.* p. 62. (ii) *Review of World Cocoa Economy* p. 15. FAO (Rome) 1963.

2) *A Study of Contemporary Ghana*, *op. cit.* p. 374.

3) *A study of Contemporary Ghana*, *op. cit.* p. 376-377.

explains the vigorous promotion of trade by Ghana in Eastern Europe and the Soviet Union ; in fact this region has witnessed the fastest growth in cocoa imports in recent years. Thirdly, the importance of taste suggests the possibility of creating an expansion of demand through promotional activities in consuming countries. In this context it is necessary for research in new end uses to be pursued both at the national and international levels.

Determinants of supply

Cocoa, like most agricultural products, is characterised by a low short term price elasticity of supply. Supply may change considerably from year to year, partly as a result of climatic and other natural reasons, such as attack by diseases and fungus. The consequential change in prices, however, has no immediate impact upon output owing to the very low elasticity of supply in the short-run. High prices, which may lead to an increase in new planting have their impact upon output only years later when the young trees come into bearing. A recent study commissioned by UNCTAD¹, confirm, the above proposition with regard to supply elasticities of supply for the major producing countries of West Africa and Latin America and shows that while long term price elasticities are high in the West African countries and in Brazil, there is no significant short term response to price changes in the largest West African producing countries or in Ecuador, while elasticity in the smaller Latin American producers is very small.

With regard to income elasticity of supply this is suggested to be positive. It has been theorized that the producing community reacts to a combination of price and income effects. " A real producers price that is at least not lower than prices in the recent past is a necessary condition of a large volume of new plantings. A level of aggregate income of the cocoa community sufficient to give it access to a substantial amount of money over and above current needs for consumption is also a necessary condition " ².

The time lag between new plantings and the time the young trees come into first bearing (they take about a decade to reach full bearing) is the major cause of the long term price cycle which can be distinguished in the world cocoa market, reflecting heavy planting and replanting in times of high prices, followed by a glut some years later. In years of low prices the reverse situation is noticeable, producers lack the incentives and perhaps the funds to plant new trees. This leads to a future shortage and a new rise in price. The accompanying Chart I taken from Weymar³ illustrates some of the various funda-

1) See UNCTAD document TD/B/C.I/164 (January 1975) " Marketing and Distribution of Cocoa.

2) A Study of Contemporary Ghana, op. cit. p. 378.

3) F.H. WEYMAR. " The Dynamics of the World Cocoa Market " (M.I.T. Press - Cambridge - Massachusetts - 1968) p. 2.

CHART I

Flow graph of cocoa industry structure

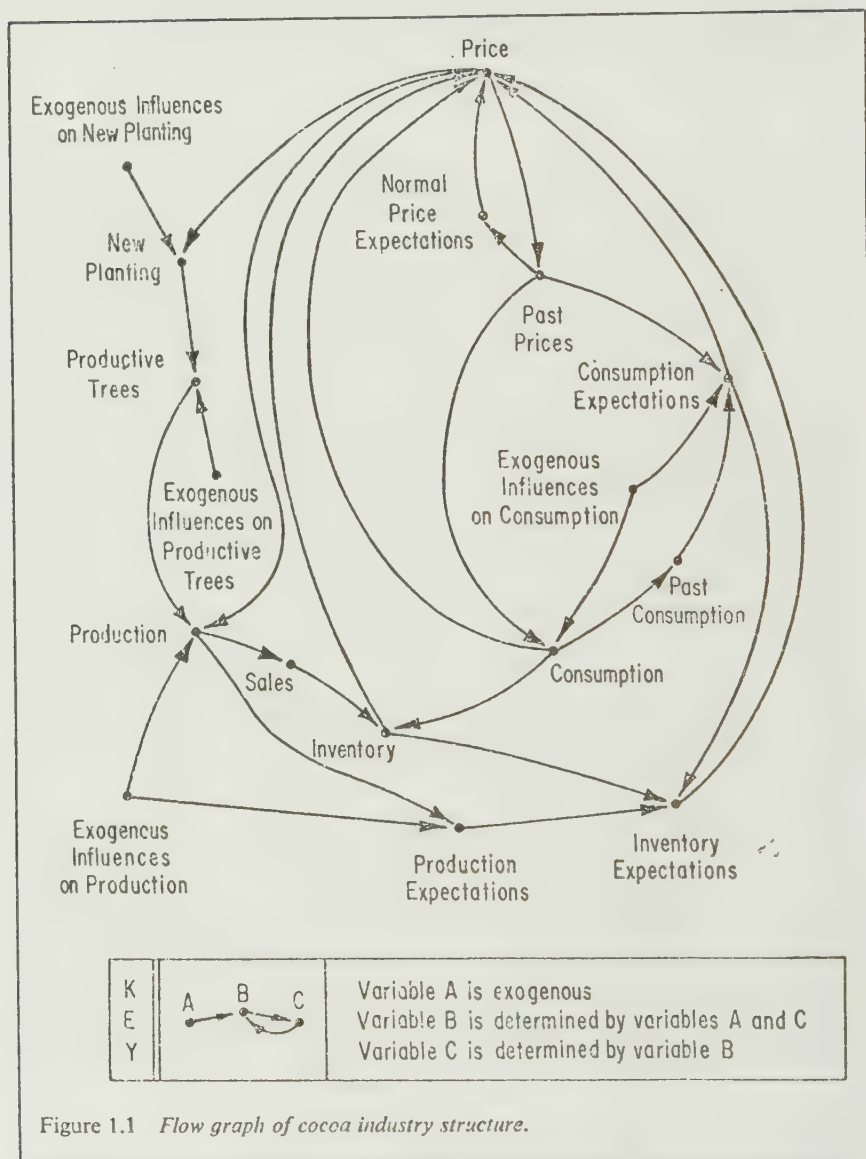


Figure 1.1 Flow graph of cocoa industry structure.

Source : " The Dynamics of the World Cocoa Market " by F.H. Weymar (M.I.T. Press 1968) p. 2.

mental inter-acting factors which form the basis of price formation on the cocoa market.

Terminal markets¹ and prices

While fundamental demand and supply factors are the determinants of the long-term prices of a commodity like cocoa, what determines prices in a more direct sense is the trade in futures contracts on the terminal markets. A futures contract is a legal instrument which binds both the buyer (long) and the seller (short) to the fulfillment of certain obligations. Regardless of the type of commodity, a futures contract specifies the quantity, the grades deliverable and delivery location. A standard contract grade is specified with a schedule of premiums and discounts established to provide for delivery of other approved grades. A futures market refers to the organized exchange² trading of standardized contracts for the future delivery of commodities.

Futures originated, basically, in response to an urgent and spontaneous need for a hedging medium in commodity markets characterized by erratic price changes. The hedging facilities offered by a futures (terminal) market enable commodity tradesmen to reduce their risk of loss from price fluctuations. It enables a manufacturer to buy well forward when prices seem low and a producer to sell forward when prices seem high. This is possible due to the presence of another party, a dealer, who can undertake to buy or sell months ahead of harvesting, covering against the risks of an adverse change in prices by hedging his position.

Hedging is an offsetting transaction which implies taking a position in futures opposite to that assumed in actuals. In general it involves the temporary use of a futures position as a substitute for a merchandizing contract. Although the futures contract provides for ultimate delivery or acceptance of actuals, hedge transactions in futures are not necessarily undertaken with the objective of making or accepting delivery. In most cases, the merchant will "even up" his actuals position in the cash market, simultaneously closing out his futures position with an offsetting futures trade.

1) The operations of Terminal Markets are highly technical and complicated and there is a growing literature on it, among which are H.B. Arthur - *Commodity Futures as a Business Management Tool*, 1971 ; *Understanding the Cocoa Market* - New York Cocoa Exchange, Inc., New York ; G.L. Rees, *Britains Commodity markets*, Paul Elek Books Ltd., London, 1972 ; *The Commodity Futures Market Guide* - Stanley Kroll & Irwin Shisko (Harper & Row, 1973) ; *Speculation, Hedging and Commodity Price Forecasts* - W.C. Labys and C.W.J. Granger (Health Lexington Books - Massachusetts, 1970).

2) At terminal (or futures exchange) markets futures are sold and bought under specific regulations in transactions similar to those of a forward currency exchange market. Trading is conducted only during specified hours, on specified licensed commodity exchange and between the exchange members only. Prices must be established openly by public outcry through bids and offers, and payment in full must be made at the time of delivery.

The "basis"¹ is probably the most important aspect of hedging to the dealer whose main motive in hedging transactions is to profitably exploit changes in cash versus futures price differences (basis) rather than to simply insure protection against an adverse price move. The dealer's skill and his chances of making a good profit can be judged by his ability to correctly forecast future direction of price movements one step ahead of the market. Hedging does not eliminate risk; rather it substitutes a "basis" risk, acceptable to the hedger in place of the otherwise present speculative price risk.

The modern commodity futures market has evolved into a complex mechanism serving a number of essential functions in the marketing system; its basic functions can however be said to be to provide an efficient procedure for setting competitive prices quickly in a free and open market. A "futures" price at any particular point in time reflects the consensus of all the people who are trading in that commodity, it mirrors their evaluation of a commodity's present and future price outlook. A terminal market thus makes possible an orderly marketing of a commodity.

Unfortunately while providing an effective medium for commodity prices setting, the terminal market also serves as an area "par excellence" for the activities of professional speculators especially during periods of international currency and political instability. Heavy speculative activities on the commodity futures market often vitiate its essentially price setting function. During such periods prices appear highly irrational. There is also the risk of market manipulation for speculative gains in future dealing, not by speculators as such, but by very large trading houses².

The oldest cocoa terminal market The New York Cocoa Exchange was opened in 1925, followed in 1928 by the London terminal market for cocoa and more recently by those of Paris and Amsterdam. The three major terminal markets, in London, New York and Paris together constitute the accepted world futures market for cocoa, effectively linked by an active arbitrage between them. Manufacturers and merchants in Western Europe use the London and Paris markets a good deal for hedging and purchase physical cocoa from London, Paris, Amsterdam and Hamburg merchants. In 1973, total³ future transactions on the four cocoa terminal markets amounted to 18.3 million metric tons as compared with total world grindings of 1.5 million metric tons. Until very recently African

1) The "basis" is the name given to the price spread between a cash (spot) commodity and a related future. It expresses the premium or discount at which a cash commodity of specified grade and location sells versus a particular future.

2) Since 1974 the Commodity Exchange Authority (CEA) of the United States has issued stringent regulations to safeguard against excessive speculation and possible price manipulation of the market. Although controlling Authorities exist on the London and Paris markets, there appear to be more leeway for greater speculative activities than on the New York market.

3) See UNCTAD document TD/B/C.I/164 (of January 1975), p. 50.

exporting countries have been conspicuous by their absence from future markets operations, most probably due to the lack of the necessary expertise or understanding of their potentialities. It is now better appreciated that futures markets can be a viable alternative channel for marketing boards to dispose of their crops if necessary even before they are harvested.

Since 1960 Ghana's cocoa has been marketed directly from Accra through the Ghana Cocoa Marketing Company, a subsidiary of the Marketing Board. Sales are made either directly to registered manufacturers or dealers or to state trading bodies in the case of transactions with CPE countries, on the basis of prices determined on the futures market. Since the early seventies the CMB has however been participating progressively in the futures trade through dealers and specialized firms¹. It is debatable whether it would be in the interest of the CMB to operate openly and fully in the futures trade. While there might be some merit in this it might be preferable for the Board to stick to its essential function of making the highest possible average price. A dealer can operate at a profit whether the market is firm or depressed provided there is enough price movement to yield a margin. On the other hand the Board's job of seeking the highest possible average price might at times involve withdrawing from certain markets for days on end, or even involve playing one market against the other, and she cannot do this if she is under obligation to operate openly and fully on the terminal market. Moreover the Board's ability to operate fully on the futures market is limited by the country's chronic shortage of foreign exchange which often obliges it to dispose of a large part of the crop in forward cash sales. There is thus much to be said in favour of the present policy of discrete and judicious participation in futures trading, when crop and market conditions are favourable.

PRICE FLUCTUATIONS AND GOVERNMENT POLICIES

For a country like Ghana which is heavily dependent on the export of cocoa for foreign exchange and government budgetary revenue wide fluctuations in prices tend to destabilize the economy in a number of ways. Firstly it leads to widely fluctuating export earnings. Which means that imports of the capital goods necessary for development are often an unstable element in planning. Secondly since exports are a major part of the GDP the multiplier effect of the fluctuations on the whole economy is considerable. A major direct way in which world price movements affect the Ghanaian economy is in their influence on government resources and hence on the budgetary balance. Directly and indirectly, a large part of the total government revenue is derived from cocoa. Besides the cocoa export duty, there are grants by the Cocoa Marketing Board, expenditure by the Board on general development, and loans to the Government

1) On the basis of information received from CMB sources.

out of the Board's reserves. Moreover since cocoa exports account for over 65 per cent of the country's exchange earnings and therefore its import bill, they are at the base of the country's revenue from import duties.

Despite the evidence of fluctuating world prices, studies¹ have however revealed a relative constancy in cocoa export revenues, excepting periods of exceptional prices. Against the average year to year price fluctuations of + 25 per cent in 1950-61, the fluctuations in the total proceeds for Ghana's cocoa exports were of the order of 16 per cent. This relative stability can be partly traced to the factor already mentioned above, of the inverse relation between the volume of export and prices. Thus changes in the volume exported tends to offset or reduce the destabilizing effects of the price movements. Shortfalls in supply are accompanied by rise in prices and large supply surpluses imply price falls. Chart I in chapter two illustrates the relative constancy or stability in Ghana's cocoa earnings in the fifties and sixties.

As the main instrument of the Government's cocoa policy an analysis of the functioning and policies of the Cocoa Marketing Board is essential for understanding the commercial policy on cocoa.

The Ghana Cocoa Marketing Board

The Cocoa Marketing Board was established by Ordinance² in 1947 and started operating in the 1947-48 cocoa season. The reason

1) See Study of Contemporary Ghana op. cit., pp. 347-349, 381-382. Also The Economic Bulletin of Ghana, 1972, Volume 2 No. 4 p. 56.

2) Extract from the ordinance establishing the Gold Coast Cocoa Marketing Board.

Gold Coast Cocoa Marketing Ordinance (No. 16 of 1947)

Section 6 : (1) It shall be the duty of the Board to secure the most favourable arrangements for the purchase, grading, export and selling of Gold Coast cocoa, and to assist in the development by all possible means of the cocoa industry of the Gold Coast for the benefit and prosperity (*) of the producers.

(2) In particular, and without prejudice to the generality of the foregoing, the Board shall have the power

- (a) to control and fix the prices to be paid from time to time to Gold Coast producers for their cocoa and similarly to arrange in such manner as the Board shall think fit, to notify such prices ;
- (b) to purchase cocoa and to do all things necessary for and in connection with the purchase from producers of Gold Coast cocoa ;
- (c) to appoint licensed buying agents for the purchase of cocoa on behalf of the Board ;
- (d) to grant, renew or withhold licenses for each crop year to such agents, to impose conditions upon the grant of such licences, and to cancel or suspend any such licences for breach of any such conditions or other good cause.

Section 8 : From and after the commencement of this Ordinance

(1) No person shall purchase cocoa except

- (a) The Board, or a person authorized to purchase cocoa for sale to the Board ; or
- (b) a licensed buying agent or a person authorized to purchase for sale to such an agent ; or
- (c) a person acting upon the written instructions of the Board.

(2) No person shall export any cocoa except

- (a) cocoa which is the property of the Board ; or
- (b) cocoa the export of which has been authorized.

(*) The definition and interpretation of these terms is left entirely to the discretion of the boards.

for its creation lay in the problems faced by primary product exporters beset with eratically fluctuating prices. The events which led to its creation could be traced to the economic depression of the inter-war years¹. The collapse in 1937 of the existing marketing structure coincidental with the collapse of the world cocoa price, the creation of a monopolistic buying ring and the resultant refusal of cocoa growers to sell, led to the appointment in 1938 of the Nowell Commission to West Africa to investigate the situation. Hitherto the marketing situation was such that the interests of their farmers were in no way protected. Not only did they suffer from the fluctuations on the world market, but also internally from a situation which resulted in their receiving only a fraction of the price through the action of middlemen. One of the principal recommendations of the Commission was the need for short-term price stability. Discussions on the report of the Commission were, however, interrupted by the war. A stop gap war-time plan put into operation had as its features, an annual fixed price system as a means of protecting the farmer from losses on unshippable cocoa, a statutory buying monopoly dealing through a very limited number of licensed purchasing agents ; a guaranteed market (the UK Government guaranteed to purchase all cocoa produced in her colonies) though characterized by long-term bulk purchases at prices well below rising world market prices. The West African Produce Control Board was established in 1939 to undertake overseas marketing of cocoa. With the experience gained during the war it was decided to create a national institution the Ghana (Gold Coast) Cocoa Marketing Board to protect the interest of the farmers. The Board has been charged with the responsibility for making arrangements for the purchase, selling and export of Ghana cocoa and other produce such as coffee, palm kernel and shea nuts and to assist in the development by all possible means of all produce under its charge for the benefit and prosperity of the producers. The precise mandate of the Board is as follows :

- a) to fix and control, with the prior approval of the Government, the prices to be paid to producers of their cocoa and other produce and publish such prices ;
- b) to appoint licensed buying agents for the purchase of coca and other produce on behalf of the Board ;
- c) to arrange for the evacuation of the produce to port and ship them to overseas destinations ;
- d) to sell the produce in the world market ;
- e) to carry on other activities that may be conclusive to the attainment of the objectives and functions of the Board.

1) For a study of the historical developments which led to the creation fo the CMB, see P.T. BAUER, " West African Trade ". For a serious effort to trace the past policies of the Marketing Board, see " Ghana Cocoa Marketing Policy 1938-60 " by R.H. GREEN. Nigerian Institute of Social and Economic Research Conference Proceedings. December 1960. For current developments, see the Annual Reports on the work of the Cocoa Marketing Board.

Internal price stabilization

A marketing control agency can maintain price stability either through a purchasing monopoly with a set price or through skilful use of such instruments as progressive export duties and subsidies. An approximation can be achieved through setting a minimum price (with the government in some sense a purchaser of last resort) in combination with taxes and charges which make payment of substantially higher prices to producers unprofitable whatever the world price. The GCMB has since its establishment followed a policy of fixed prices. At the beginning of each season the price to be paid to the farmer is fixed by the Board upon the advice of the Government. This price prevails throughout the whole season whatever the level of world prices. The world price, less the Government export duty goes to the Board and from this the Board pays the producer price with the rest going to cover its costs (See Table II), and additions to the reserve fund. Where the world prices, less the Government tax was not enough to cover its operational costs the Board has to make a recourse to its Reserve Fund. The Reserve Fund was meant to be a support for short-term rather than long-term stabilization purposes. Prior to 1953 stabilization over the long run was viewed as a future goal to be made possible by acquiring as large a fund of reserves as possible, while allowing rather wide year-to-year fluctuations so long as all producer prices were well above the war-time level. This long term policy of insurance rather than stabilization enabled the stabilization of year-to-year prices until 1953. In 1954 the Minister of Finance issued a statement¹ which has in effect become the official policy of the Board since then. Among other things it directed that a) the producer price should be changed as rarely as possible to allow stable long term expectations and prevent domestic price level fluctuations, b) boom revenues should be impounded by the Board and subsequently used for the benefit of all Ghanaians, c) the Board reserves should be made available on loan to Government and Government instrumentality projects, with the Government to decide uses and amounts and the Board to negotiate specific conditions. The result of this policy meant that from 1954 through 1959 the producer price remained unchanged and has since been changed only periodically as dictated by the world price situation and other internal factors, such as the necessity to prevent domestic price level fluctuations². Another significant fact to be noticed from the policy statement was the use of boom revenues for the benefit of all Ghanaians instead of only in the cocoa areas as has hitherto been the policy.

On the whole although the combined use of fixed prices and reserves has been successful in maintaining prices stability the same cannot be said of income stability which depends not only on the

1) Gold Coast Parliamentary Debates Col. II 1954, pp. 242-243, 390-391.

2) It has been established that increase in producer prices have almost always been followed by spurts in internal price levels. Other internal factors were the cost of living situation, and the general political atmosphere.

TABLE I
COCOA PRODUCTION AND TRADE - GHANA
COCOA PRODUCTION

	1964/65	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75
	(in 000 metric tons)									
Ghana	557.0	381.1	423.5	327.0	414.3	406.0	470.0	415.7	343.0	381.6
World Total	1,485.0	1,362.0	1,368.0	1,231.0	1,414.0	1,528.0	1,589.0	1,413.0	1,449.0	1,549.0
Percentage										
Ghana/World	37.5	28.0	30.9	26.6	29.3	26.6	29.6	29.4	23.7	24.6

	1965	1967	1968	1969	1970	1971	1972	1973	1974
TRADE									
<i>Exports of cocoa products (Ghana)</i>									
<i>Quantities (in long tons)</i>									
Cocoa beans	493,989	329,641	329,984	303,800	361,560	338,733	405,729	367,919	308,951
Cocoa powder	-	3,585	3,717	322	-	7	150	892	20
Cocoa butter	21,045	23,434	19,677	17,734	17,157	21,764	18,892	19,883	19,983
Cocoa paste	20,808	24,245	3,018	1,306	1,110	1,045	3,072	6,147	3,681
Cocoa cake			8,743	17,328	16,001	18,408	36,315	20,730	16,184
<i>Value (mn new cedis)</i>									
Cocoa beans	136.5	130.7	185.6	219.7	300.4	211.5	289.1	344.8	466.4
Cocoa powder	-	0.6	0.8	0.1	-	-	0.1	0.3	-
Cocoa butter	11.4	22.5	24.1	24.0	27.3	24.3	29.0	44.2	85.6
Cocoa paste	0.9	2.5	2.5	1.4	1.0	0.8	2.6	4.2	7.3
Cocoa cake			2.1	1.9	2.9	2.7	7.3	3.8	3.3
TOTAL	148.8	156.3	215.1	247.1	331.6	239.3	328.1	397.3	562.6

Sources : Economic Survey (various issues) ; External Trade Statistics of Ghana ; Central Bureau of Statistics Accra ; Quarterly Bulletin of Cocoa Statistics - (International Cocoa Organization, London).

producer price stability but also on the rate of domestic inflation and the volume of production which is a function of non-price factors. Income stability has actually not been a major policy aim of the Board, in view of the problems and difficulties involved, but the fact that the farmer has a guaranteed market could be an important incentive factor. However as B.M. Niculescu¹ has pointed out, effective price stabilization would tend to result in income stabilization over a relatively short number of crop years, if there was no long term trend in output. But as will be discussed later, the policy of price stabilization has since the last ten years not realistically taken into consideration inflationary and production cost factors with negative results on the industry.

An important aspect of the Boards activities has been the use of its funds for the development of the cocoa industry and also for general development purposes. Massive expenditures have gone into agricultural research, swollen shoot control, capsid damage reduction, the development in cocoa-growing areas in projects such, as school building and educational grants and scholarships, hospitals, health centres, feeder roads, etc... While acknowledging the importance of this aspect of the Board's activities it must however be pointed out that it does not form an intrinsic part of the normal functions of a Marketing Board and that the same services could be rendered directly by other institutions of the government.

Future evolution of the Board

The future development of the Marketing Board will depend to a large extent on the evolution of its functions and objectives and on the nature of its structural relationship with the government. It has been accused of being too monolithic and rather unwieldy. Created to organize the marketing of cocoa and protect the interest of the farmer its activities have grown to cover almost every aspect of an industry which is becoming increasingly integrated, from production promotion, to marketing and processing, not forgetting its development services already discussed above. With the creation of a Cocoa Ministry in 1975 it may be desirable for the Ministry to take over many services now being shouldered by the Board such as the promotion of production, disease control and infrastructural development so that the Board can concentrate on marketing both internally and externally.

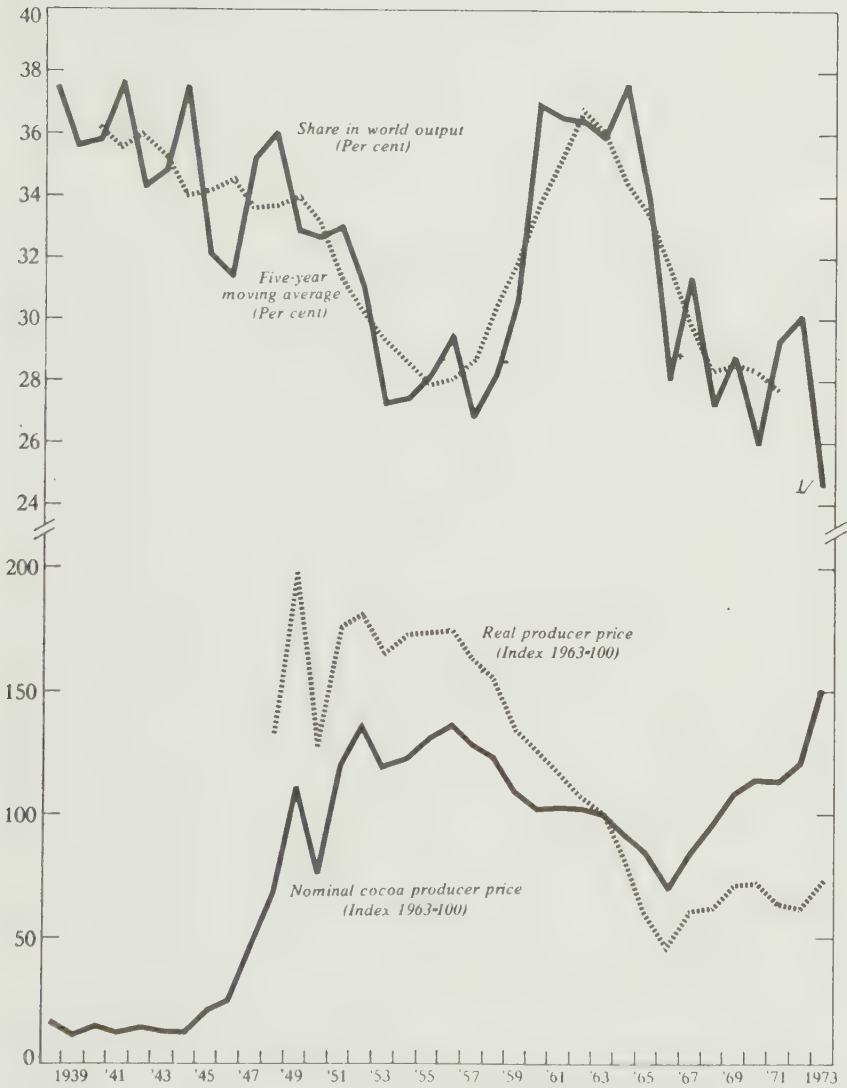
RECENT TRENDS IN PRODUCTION, AND POLICY IMPLICATIONS

One of the singular features of Ghana's cocoa economy during the past decade has been the constant instability in the volume of

¹) See J.W. WILLIAMS, B.M. NICULESCU and W.B. BIRMINGHAM, "Cocoa Price Policy - Mimeographed Memorandum 1953 (University of Ghana - Faculty of Economics).

CHART II

Ghana : Real and Nominal Cocoa Producer Prices and Share in World Production 1938-73



Sources : Gill & Duffus Ltd., *Cocoa Statistics and Cocoa Market Report. Summary of African Economies Vol. 6.* (IMF 1975) p. 99.

1) Estimate.

cocoa production and exports. Since the record crop of 1964/65 season of over 550,000 long tons, Ghana's cocoa crop has fluctuated in a downward trend to the 343,000 long tons recorded for the 1973/74 season, the lowest for almost two decades apart from the 1968/69 total of 270,000 tons. Where such a fall in production reflects a general world trend it has an inverse effect on prices with the end result that the total export earnings from cocoa may not be significantly adversely affected. Where a fall in production is only limited to Ghana and there is a general rise in production in other producing countries, the resultant fall in market price is bound to result in a drastic fall in total earnings from Ghana's cocoa exports. (See table I and Chart 2).

The downward trend in Ghana's cocoa production has been attributed to many factors. The immediate factor was most probably climatic and more precisely the instable rainfall regime which has affected most of sub-Saharan Africa and especially West Africa during the last few years. A more fundamental factor is the old age of many of the farms, which implies that most of the trees may have passed their peak yielding period and are either yielding stable crops or rather declining ones. This factor is directly related to the lack of sustained investment in new farms during the last few decades and this is in turn explainable by inter-related social and economic reasons. A recent study has brought out the fact that the average age of cocoa farmers was around 50, which reflected, as had earlier been pointed out, a constant drift of young people from rural to urban centres. The absence of incentives for farmers to encourage their children to take to farming, and generally an educational system which has laid greater emphasis on white and blue collar careers. The policies of the Cocoa Marketing Board of maintaining producer prices at a fixed level for considerable lengths of time have become a major disincentive to investment in cocoa farming as producers prices at times represented as low as 30 per cent of market prices. (See table 11). This has also among other things encouraged smuggling into the neighbouring countries where producer prices are often much higher¹. Smuggling has been estimated to cost Ghana 20-25,000 tons of her seasonal crop. The generally, socially, under-developed nature of rural areas has also been a factor adversely affecting the development of a healthy farming community. Such amenities as good drinking water, medical facilities and even schools are often absent. Farmers who want to educate their children have often been obliged to send them to urban centres far removed from the farms. One must not also lose sight of a major factor which influence the level of production, namely the various pest diseases which affect the trees and fruits and which demand good husbandry. In the fifties and sixties when these pest diseases were raging the only effective counter-measure was cutting down the trees, and this resulted in the destruc-

1) For example for the mid-crop of 1974/75 the Ghanaian producer price was equivalent to 23.3 US cents per pound as compared with 48 US cents in Nigeria and 33.8 - 37.0 cents in the Ivory Coast.

TABLE II

**GHANA : INTERNAL ALLOCATION OF F.O.B.
COCOA BEAN PRICE FOR THE PERIOD 1959/60 - 1972/73**

	1959/60	1960/61	1961/62	1962/63	1963/64	Oct. 1964 Feb. 1965	Mar. 1965 Dec. 1965	1966	1967	1968	1969	1970 (Sept.)	1970/71	1971/72	1972/73 Estimate
	(New Cedis per long ton)														
Price paid to producer	224.30	224.00	224.00	224.00	224.00	224.00	224.00	214.68	153.44	186.66	245.75	270.10	298.62	298.67	300.58 ^a
Farmers contribution 2nd Development Plan	44.39	44.80	44.80	44.80	-	-	-	-	-	-	-	-	-	-	-
Allowance payable to buying agents	22.58	21.95	22.11	24.88	28.48	28.48	15.84	25.08	26.28	33.76	37.05	38.65	38.66	40.40	42.50
Storage time allowance	- 22	- 31	- 03	- 15	- 16	- 15	- 28	- 06	- 02	- 20	- 24	- 23	- 34	- 34	- 27
Export and local duty	125.09	75.62	58.68	63.85	78.64	66.15	32.33	49.23	111.04	227.81	380.50	486.02	311.82	323.13	308.33
Railway and road transport	10.03	9.65	10.58	10.77	10.81	9.54	11.32	11.25	12.75	12.40	14.41	12.44	12.51	15.20	12.11
Lighterage and other shipping charges etc...	2.61	2.97	2.82	2.91	3.03	2.80	4.93	2.75	3.17	2.78	3.74	2.97	3.30	3.29	4.34
Fumigation expenses	- 68	- 49	- 28	- 34	- 52	- 67	- 40	- 64	- 75	1.08	1.23	- 91	0.03	- 63	2.21 ^b
Finance and bank charges	1.14	6.29	5.56	6.64	6.68	13.22	7.88	11.06	4.63	8.70	8.80	2.67	9.48	16.82	16.11
Administration (salaries), office exps., board meetings, etc...	6.48	3.98	6.10	3.71	2.56	24.46	3.82	2.32	2.66	5.24	4.81	5.10	8.10	9.28	15.57
Amounts written off	-	8.03	-	-	-	-	-	-	-	-	-	-	42.67 ^d	0.25	0.39
Total f.o.b. price cocoa beans	437.52	398.09	373.96	382.05	354.88	369.47	291.48	255.83	347.96	537.72	720.88	847.61	725.58	709.81	775.16

Source : Ghana Cocoa Marketing Board, Accra.

a) The value represents the weighted average for the main and mid crops (Main Crop price of new cedis 298.67 per ton and a tonnage of 450 604 and mid crop price of new cedis 373.33 with the corresponding tonnage of 11,860).

b) The total cost of stock of insecticides which are purchased in a particular year are debited to that year's account, irrespective of whether the whole stock is used in that year.

c) The portion of the cost of bags borne by the Board is included in the allowance payable to the licensed buying agents.

d) Debt accumulated between 1950 and 1971 and owed mainly by the licensed buying agents.

tion of millions of trees and in some regions the industry was completely wiped out. To the above factor may be added such problems, as the fragmentation of the holdings of single farmers both across a given plot of land and in different districts or even regions which limits rational cultivation and supervision ; and the uncertain land tenure system. The lack of stimulus to cooperative bases for cultivation and improvement of small holdings increases these problems. Also of relevance to the present issue are such drawbacks as the periodic shortage of farming inputs such as cutlasses, insecticides and spraying machines ; high labour costs, lack of proper maintenance of farms and the growing competitive attraction of food farming.

Basic to many of the factors discussed above has been a total absence of what can be considered as a comprehensive long-term policy for the industry, touching not only production planning, based on a study of long-term world demand and supply trends, but also development of cocoa processing industries, market development and promotion. The emphasis on industrialization during the last two decades and the consequential neglect of the traditional agricultural sector has something to do with this state of affairs. Moreover it may be argued that the emphasis on the fight against pests in the fifties and on attempts in the sixties to stabilize world market prices diverted attention from the necessity of formulating a long-term policy for the industry. The political developments of the last twenty years may also have created a climate of instability inconducive to such a policy formulation.

A major step towards correcting this long standing decline was taken in May 1974 with the setting up by the NRC of a National Cocoa Production Committee, headed by the Chief Executive of the Cocoa Marketing Board, with the mandate to " examine critically the fundamental problems confronting the cocoa industry and recommend both shortrun and long-term policies to enable Ghana to increase her production and her share of the world cocoa output ". It must however be pointed out, that formulating reliable long-term policies for the industry is bound to be a difficult exercise. Estimates of future production trends have to be made in face of a lack of basic data on plantings and age structure in the various producing countries. While it is possible on the basis of certain assumptions about prices and income, to make demand projections their weakness is that price and income factors are only very partial explanations of demand and unforeseen changes in taste could produce a very different result. Moreover as has already been pointed out, converse movements in price have tended to offset changes in production and therefore the returns on any extra resources employed in cocoa have tended to be small. Any policy aimed at a massive increase in production must therefore, take into consideration its possible depressive effect on prices. However where planned expansion of production is possible simply by the use of improved varieties and better techniques or even the rehabilitation of old farms, without tying up large amounts of additional resources or incurring large social costs, it may be considered a viable

policy. The maintenance of stable prices on the world market could provide the necessary foundation for such expansion of production.

INTERNATIONAL COCOA PRICE STABILIZATION

Until the late fifties the attainment of an international price stability in the cocoa market had not been pursued as a consistent Ghanaian policy ; interest in it had surged at periods of falling prices. As balance-of-payments deficits became a feature of Ghana's economic picture in the late fifties an early sixties, implying a constant drain on foreign exchange reserves, interest in arranging an international commodity agreement on cocoa on which Ghana depends for most of its foreign exchange earnings became rather sustained and the Board became the main agent of Ghana's policy on this issue. Action was taken on two broad fronts, firstly within the framework of multilateral negotiations involving both exporters and importers under the aegis of the United Nations, and later, simultaneously within the framework of the exporters conclave, the Cocoa Producer's Alliance.

The first serious attempt in search of a cocoa agreement was made in 1956 in the FAO where an organism already existed (Inter-governmental Working Group on Cocoa backed by the Cocoa Study Group) for a discussion of the problems confronting the world cocoa economy. It was soon realized that the FAO was not well suited for a discussion of the various financial and trade policy issues involved and the venue was changed to the UN proper ; with the formation of the UNCTAD, it became the forum for a series of conferences and consultations which were to result in 1972 with a cocoa agreement. The main problems encountered during the negotiations and which prevented their early conclusion were the issue of the price range and the mechanism for its maintenance ; whether prices should be controlled by a mechanism of export quotas or through a system of buffer stocks or a combination of the two. Allied to this was the crucial issue of the financing of the buffer stock. Whether this should be borne only by the producers or by both producers and consumers and to what extent international financial institutions could play a role in this. At the background of all these difference was the fundamental antagonism between the protagonists of a free international commodity market represented by most of the developed importing countries and those of a regulated market which assures a greater protection for the interests of producing countries. In other words the antagonism between those who advocate the price mechanism as the only valid instrument of market control and those who advocate that in the primary product market, especially in the agricultural sector, direct intervention in the market is justifiable as a means of ensuring fair and stable prices and a healthy framework for continuous production ; all the more so as the latter argue that the price mechanism in primary commodity markets is falsified by such factors as speculation, commodity and currency hedging, and the effect of short-term movements on the international currency market.

The following section will be devoted to a discussion of the institutionalized efforts at the international level to regulate the world cocoa market.

The Cocoa Producers Alliance (CPA)

The CPA was founded at Abidjan in 1962 by the five main producers (Ghana, Nigeria, Ivory Coast, Brazil, Cameroon, later joined by Togo) out of frustration from the persistent failure of efforts at concluding an International Agreement to control the wild price instability characteristic of the cocoa trade. The first serious attempt at an international level to conclude an Agreement was taken in 1956 by the FAO. In spite of periodic consultations and conferences and the change of venue from the FAO to the UN proper, the differences between the producing and importing countries could not be reconciled. From 1960 onwards the downward movement in cocoa prices became more and more marked (see Table II).

It was thus in the context of the failure to conclude an international agreement and of a deteriorating price trend that the Alliance was created. Its main objectives as outlined in the Abidjan Charter were to enable its member countries

- a) to exchange technical and scientific information ;
- b) to discuss problems of mutual interest and to advance social and economic relations between producers ;
- c) to ensure adequate supplies to the market at reasonable prices ;
- d) to promote the expansion of cocoa consumption.

Attempts at price stabilization by the CPA

The main objective of the CPA has undoubtedly been the maintenance of prices at a stable and remunerative level. The two approaches adopted were direct intervention on the market and the conclusion of an international agreement through multilateral diplomacy. The circumstances of its own birth, explained earlier on, obliged the organization to make a recourse to direct intervention, especially after the failure of the UN Cocoa Conference in 1963.

In 1964, following a number of preliminary meetings, it was decided to establish a system of control to regulate supplies to the world market in order to arrest the decline in prices, and to do so without the participation of the importing countries. Under the terms of the Agreement¹ reached on this question in 1964, the mem-

1) The International Cocoa Agreement of the CPA was concluded in July 1964 (20-25th) and signed by all the six member countries. Its aims were a) to effect adjustment between production and consumption where normal market forces have failed, b) to prevent excessive fluctuations in the price of cocoa which affect adversely the interests of producers and consumers, c) to protect the foreign exchange earnings of Member Countries, d) to assure adequate supplies at remunerative prices, e) to prevent stocks held by consumers attaining levels detrimental to the interests of producers, f) to facilitate the expansion of consumption and

bers of the Alliance established a system of basic export quotas, fixed in relation to the highest annual production of each member in the six preceding years ; these were to be adjusted in order to obtain " an indicator price " below which cocoa sales would be suspended.

*" Operation prices "*¹

In October 1964 the drastic fall in prices obliged the Alliance to implement the arrangement and even drastically cut down export quotas and restrict shipments. Some members even decided to burn a certain amount of cocoa in order to ease the pressure of supply on the market. In November and December there was a slight recovery in prices only to drop sharply towards the end of the year. In the end, prices failed to reach the " indicator " price level of 23,75 US cents per pound (for the 1964-65 crop year) and in February 1965 the Alliance was compelled to authorize the member countries to re-enter the market. They immediately proceeded to place huge quantities on the market in an effort to dispose of their accumulated stocks. Grindings increased, but were still far from catching up with supplies. The result was that prices plummeted from 20-21 cents per pound in January 1965, to 13-14 cents in May of the same year. The annual average of 16.1 cents per pound for 1965 was, in fact, as the FAO pointed out², by far the lowest of the post war period and in real terms scarcely better than in the 1934-38 depression, when Spot Ghana in New York averaged 6.1 cents per pound.

The failure of "operation prices " could be ascribed to a combination of various factors. It was evident right from the beginning that the Alliance did not have the financial and technical expertise at its disposal to enable it to tackle all the objectives it had set itself. Firstly there was coincidentally a phenomenal increase in cocoa production in 1964-65 which outstripped all the forecasts both of international organizations and of the member countries of the Alliance. The 1964-65 crop rose to 1,522,000 tons, about 25 per cent over the 1963-64 crop which was itself a record one (1,212,000). The production of Ghana alone rose from 428,000 to an all-time high of 580,000 tons in 1964-1965. A second factor was that the overall problem of stocks did not receive all the attention it merited from the members of the Alliance, with the result that the stocks³ available to the major importing countries at the beginning of the

regulate production accordingly. The main mechanism of control was elaborated around a system of export quotas and indicator prices. There were also articles covering sales policies, regulation of exports and storage of surplus as well as production and stock regulation measures. An elaborate institutional framework for the implementation of the Agreement was also created.

1) For a study of this attempt to influence prices, see UNCTAD document TD/B/293 of 29.12.1969.

2) Commodity Report (1966) - FAO.

3) Generally estimated as equivalent to six months' consumption.

operation appears to have been considerably underestimated. On the other hand storage facilities in the member countries of the Alliance were even less than the requirements for a normal crop year. They were, in fact, almost non-existent in some countries. The major importing countries were, however, fully aware of the situation in which the members of the Alliance found themselves in this respect. There was also the major handicap that the members of the Alliance had no support mechanism of any kind, such as the classic "emergency fund", at their disposal, to help them bear the loss of purchasing power in terms of foreign exchange which they suffered as a result of the suspension of sales. This situation was particularly serious for countries like Ghana which depend on cocoa for over 65 per cent of its foreign exchange earnings as well as a substantial part of its budgetary revenue. This lack of financial cover explains to a large extent the impatience felt by the producers during the period of withdrawal, and, in particular their haste to re-enter the market once authorized to do so.

There is also the major factor that the member countries of the Alliance do not appear to have shown the necessary cohesion throughout the operation. There was a climate of distrust that some member countries were not keeping to the spirit of the agreement and were engaged in clandestine sales; a situation enhanced by the fact that the sales organization of the various member countries were ill-informed of each other's activities. There was also the conflict of interest among the member countries derived from their different degree of dependence on the production and export of cocoa and their relative ease of access to the markets of the developed countries.

In fact, the technical, and even political, preparation of an undertaking of this magnitude, the maintenance of continuous liaison at a high-level between the member States throughout the operation, and even the practical conduct of the operation itself, called for means of control and intervention, as well as authority, which the secretariat did not adequately enjoy.

A rather lengthy analysis has been devoted to the failure of the experiment of the Alliance because it provides a classic example of the hazardous nature of any attempts by a cartel of producers of an agricultural food product to impose a price on the market, especially if it can only intervene on the market as suppliers and not also as a buyer. It thus also illustrates the impossibility of any attempts by a single supplier like Ghana (25 per cent of supply) to influence prices deliberately in any effective way.

Post "1964 Experiment"

The Alliance did nevertheless survive its early set-back, which goes to prove its intrinsic usefulness as a forum for consultation and co-operation on issues of mutual interest to the member countries. The failure of the 1964 experiment acted as a catalyst for the Alliance

to work more closely for a broader international agreement. The increased ability of the member countries to co-ordinate their positions and to increase their bargaining power vis-à-vis the major consuming countries, was a major factor in the negotiations of the 1972 International Cocoa Agreement. Even before the Agreement was concluded the members of the Alliance had begun to display a greater degree of co-operation in matters of sales strategy. Despite the conclusion of the 1972 Agreement and the creation of the International Cocoa Council the Alliance has been maintained in existence as an entity of its own, and as an important bargaining block within the new body. It still pursues its main objective of working for cocoa price stabilization at an equitable level.

The International Cocoa Agreement 1972

On 20 October 1972 an International Cocoa Agreement was adopted after almost sixteen years of effort by the international community¹. It came into force in the course of 1973. The main objective of the Agreement is to prevent excessive fluctuations in the price of cocoa which have been characteristic of the cocoa market. The Agreement has all the classical elements of commodity price stabilization agreements, namely a system of export quotas, a system of price range and price adjustments and a buffer stock mechanism.

Quota system and price range

Basic export quotas are established on the basis of the figures of the last three years' production². Members with less than 10,000 tons annual production are not subject to an export quota, and certain countries producing "fine or flavour" cocoa are also exempt from the quota system, provided their production or exports do not rise sharply. Before the beginning of each quota year³, the Council would establish a total export quota taking into account world requirements. This total quota would be shared by exporting countries in accordance with criteria specified in the Agreement (Article 31). There is a system for adjusting the quotas to the actual demand reflected in the movement of prices in the world cocoa market. Mini-

1) The UN Cocoa Conference of 1972, which produced the Agreement had been preceded by similar conferences in 1963, 1966 and 1967, all of which produced areas of agreement but ended in failure. In 1975 the Agreement was renegotiated with a few major changes especially in the price range. The second International Cocoa Agreement into force in October 1976.

2) For the first quota year basic export quotas were calculated on the basis of the highest annual production figure during the past 5 years beginning with, and inclusion of, the 1964/65 crop year.

3) The cocoa year spans 1 October to 30 September.

imum and maximum prices have been established and quota adjustment are to be made within this price range¹. Quotas are to be suspended when the indicator price is above a certain level, unless the Cocoa Council decided otherwise by a special vote. The use of export quotas as a price stabilization instrument has not enjoyed general acceptance. The refusal of the United States to join the International Cocoa Agreement is explained by its objection to the use of such quotas and by its stand that prices should be basically determined by open market forces while using the buffer stock mechanism to maintain prices within a range which should be as wide as possible. The main argument against such a position is the untenable strain to which the buffer stock, acting alone, might be subjected during periods of a major price fall.

Buffer stock

In order to support the price provisions of the Agreement, a buffer stock with a maximum capacity of 250.000 tons of cocoa beans is provided for, to be operated by a special manager. The buffer stock is being financed through a levy of 1 US cent per pound on cocoa first entering international trade². Additional financing, where necessary could be provided through the IMF or ordinary commercial loans. Any surplus cocoa production, and any surplus caused by a reduction in the annual quota is to be sold to the buffer stock. Sales from the buffer stock start when the price reaches the minimum price plus 8 US pound. Sales are made at current prices through the normal distribution channels but purchasers in member countries must have first refusal. Sales continue until the price falls below such price, or until the buffer stock is exhausted. Cocoa which is in surplus over market requirements and the limits of the buffer stock could be diverted to non-traditional uses. There is a provision for controls to ensure that such cocoa does not regain re-entry into normal market channels.

The Agreement and Ghana

By signing the International Cocoa Agreement the Ghana government has accepted to forego part of its sovereign right to conduct its cocoa policy in favour of a multilateral approach to the problems of the world cocoa economy in general. The failure, in 1964, of the experiment of the Cocoa Producers' Alliance to influence cocoa price discussed above, illustrates the almost impossibility of any attempt on the part of Ghana to go it alone, without disastrous effects on its economy, in view of its heavy dependence on this crop. By accepting to use the International Cocoa Organization as an instrument for re-

1) Since the coming into operation of the Cocoa Agreement (1972) till the time of writing minimum market prices have been far above the maximum set in the Agreement due to persistent short-falls in supply. Consequently the price provisions of the Agreement have never operated, thus justifying the position of those who oppose such agreements as being unable to control long-term supply and demand factors.

2) This implies a levy of US cent per pound on cocoa exported by member producing countries and on cocoa imported by member countries from non-member producing countries.

gulating the world cocoa economy, Ghana agrees to accept the obligations and discipline it entails.

Under Article 49 member countries recognize the necessity of keeping production in reasonable balance with consumption and undertake to co-operate with the Council in the attainment of this objective. Not only must Ghana accept the production discipline imposed by the annual export quotas but also obligations in relation to its sales and export policies. Thus Article 44 obliges Ghana, like other member countries, to pursue such policies as will not artificially restrict supplies and which will ensure the regular supply of cocoa to importers in member countries. When offering cocoa for sale when the price is above the maximum price, exporting members are obliged to give preference to importers in member countries as against importers in non-member countries. Exporting members also undertake, under Article 55, not to sell cocoa to non-members on terms commercially more favourable than those which they are prepared to offer at the same time to importing members, taking into account normal trade practices. Concomitant with these general obligations are other minor ones with regard to furnishing information on quantities and direction of exports, stocks, exercising strict control on shipping documents, etc... These general disciplines in matters of production and exports must be reconciled with Ghana's overall policy of maintaining her share of the cocoa trade (around 30 per cent) and promoting her trade with those countries such as the United States which are not parties to the Agreement.

Ghana's contribution¹ to the financing of the buffer stock implies a considerable sacrifice of foreign exchange resources in a country with a persistent balance-of-payments deficit problem. On the other hand this contribution could be considered as a form of stabilization fund which will revert to the country's reserves should the Agreement be terminated without the fund being utilized.

In normal circumstances the Agreement should aid in stabilizing world prices within the range stipulated within its provisions. This should enable countries like Ghana, which depend to a large extent on this commodity for their foreign exchange resources, to plan with a larger degree of assurance as to the resources at their disposal. In practice, however, events often turn out differently. For instance, the conclusion of the Agreement in 1972 was, coincidentally, followed by a phenomenal rise in world cocoa prices, which at their peak in 1974 were over 300 per cent of the maximum set in the Agreement, which goes to strengthen the argument that while commodity agreements are useful in stabilizing prices in the short term they can hardly influence longer-term disequilibrium between supply and demand which is often structural in its cause. In such a situation, market forces should be allowed to effect the necessary adjustments. Within the particular context of Ghana's economy, a successful stabilization

1) Taking as a basis an annual export crop of 400,000 tons this contribution amounts to about US \$ 8.8 million a year.

agreement, it may be argued, may produce the negative effect of inhibiting the country from undertaking the structural changes in the economy which its overwhelming dependence on this one commodity necessitates. A more diversified export economy, which is able to absorb the shocks provoked by falling prices in individual commodities could give the country a better room to manoeuvre when it finds it necessary to make fundamental structural adjustments in the economy. Without entering into the debate on the necessity of commodity agreements it may be questioned whether Ghana is not taking refuge, in such an agreement, from the consequences of its failure to diversify its economy and even to elaborate a long-term plan for the cocoa industry. In the long run a cocoa industry controlled by international market forces may be preferable to an industry subject to direct controls. While a degree of price instability cannot be avoided, what is required in the context of Ghana is, in the short run, a system of economic planning which takes a realistic account of the effect of such instability on the country's foreign exchange resources and governmental revenue, and in the medium and long runs, plans for the diversification of exports in which the surplus cocoa export receipts in boom years can play a vital role.

TARIFF AND SOME NON-TARIFF BARRIERS TO TRADE

Tariffs

Products of the cocoa industry offer a good example of the progressive processing of a primary agricultural product. One can distinguish five main product groups¹. In a progressive order of processing

1) The main products of the cocoa sector are covered by the Brussels Tariff Nomenclature number 18.01 to 18.06, i.e. 18.01 : Cocoa beans, whole or broken, raw or roasted ; (18.02 : Cocoa shells, husks, skins and waste) ; 18.03 : Cocoa paste (in bulk or in block), whether or not defatted ; 18.04 : Cocoa butter (fat or oil) ; 18.05 : Cocoa powder unsweetened ; 18.06 : Chocolate and other food preparations containing cocoa.

There is first of all the raw dried bean which makes up most of the exports of producing countries. Even this represents a very preliminary form of processing, since the very raw bean from the food has to be fermented and then dried either naturally in the sun or artificially. In the next stage of the processing ladder, the beans are roasted to facilitate removal of the shells, to render the kernels more friable, to concentrate the product and to improve the flavour and aroma. They are then passed through corrugated rollers which breaks up the beans and detach the germs ; subsequent processes separate the shells, husks and germs from the broken pieces of kernels (cocoa nibs).

The next major stage is the production of cocoa paste (also called liquor). Cocoa paste is obtained by grinding roasted cocoa beans (cleaned of their shells, husks, skins and germs) ; the resulting product is solidified in tablets, lumps or blocks. The paste can be used in this state by confectioners but it is generally used for the manufacture of cocoa butter, cocoa powder and chocolate. Cocoa paste may be partially or completely defatted (cocoa cake) ; cocoa paste in this state can be used for the manufacture of cocoa powder or chocolate, or in some cases, for the manufacture of theobromine (an alkaloid).

The next product group is represented by cocoa butter (fat or oil). Cocoa butter which, is the fatty matter contained in cocoa beans, is generally obtained by hot-pressing either cocoa paste or the whole bean. An inferior quality can also be obtained from various kinds of cocoa waste (shells, husks, dust etc...). It is used in chocolate making (to enrich cocoa pastes), in confectionery (for the preparation of certain sweets), in perfumery (for extracting perfumes by the enfleurage process), and in the manufacture of cosmetics and in pharmacy.

they are firstly the beans either in the raw dried form or roasted, secondly the paste or "liquor" produced by grinding roasted cocoa beans, then the butter or fat produced either from the paste or directly from the beans. Fourthly the unsweetened cocoa powder obtained by pulverising the partly defatted cocoa paste, and finally what can be considered as the end product such as sweetened cocoa powder, chocolate in various forms and miscellaneous food preparations containing cocoa in various proportions.

Pains have been taken to point out the various processing stages in order to focus attention on the problem of tariff escalation and effective protection. In most producing countries, with the exception of Brazil, the bulk of exports has up till now been in the form of beans, mostly dried and unbroken; however in tune with their policies of promoting industrialization and of maximizing the export earnings there is an increasing emphasis on exporting processed cocoa products. Ghana exports, apart from beans, cocoa powder, cocoa butter, cocoa paste and cocoa cake; sweetened cocoa powder and chocolate are also produced for the domestic market, and some exports of chocolate in tablet form have been recorded in recent years. Table I shows the increasing proportion of exports of processed cocoa products especially cocoa butter, paste and cake in total cocoa exports.

Most major importing countries, who also happen to be the major processing countries import cocoa beans either duty-free or at a very low rates of duty, however the duties rise with each stage in the processing ladder. Taking for example the external common tariffs of the EEC in 1974 there was a rate of 5.4 per cent suspended at 4 per cent on cocoa beans; this jumps to 15 per cent for cocoa paste and 16 per cent for cocoa powder. On the other hand the rate on cocoa butter which can be considered as an intermediate raw material was 12 per cent. While the rate on the final products such as sweetened powder and chocolates varied between 10 and 12 per cent, there was in addition variable levies imposed on the basis of the sugar content. A levy is also imposed in Austria and Sweden on certain chocolate and food preparations containing cocoa. In Japan the rates escalate from zero on the beans to 35 per cent on some of the finished products. Most of these duties are protective in motive and in this regard, even more important than these nominal duty rates is the effective protection they offer to domestic processing industries. As has been pointed out in chapter III the real protective effect of these nominal duties can be quite significant and can be a major barrier to countries

Unsweetened cocoa powder is obtained by pulverising the partly defatted cocoa paste. Soluble cocoa powder results from treating the nibs, paste or powder with alkaline substances to increase its solubility.

The next group of products which in a way may be considered the final products of the processing industry covers chocolate and food preparations containing cocoa or chocolate. Chocolate is composed essentially of cocoa paste and sugar, usually with the addition of flavouring and cocoa butter. Milk, coffee, hazelnuts, almonds, orange-peel and various other fruits and nuts are sometimes also added. In the group of end products are also sweetened cocoa powder, chocolate powder, chocolate spreads and a host of confectionery and food preparations containing cocoa in various proportions.

trying to export processed primary products. Ghana's association with the EEC through the Lome Convention means that more than fifty per cent of her exports of beans and processed cocoa products enter their markets duty-free. This offers her products a margin of protection in these markets vis-à-vis products from third countries not enjoying such preferential concessions. In most importing developing countries, high tariffs are the order of the day.

Internal charges

Apart from tariffs, cocoa products are subject to various internal taxes in most developed countries. Apart from, an in addition to, the general consumption taxes, some developed countries apply a revenue selective tax on cocoa beans, semi-processed cocoa products and chocolate. Cocoa beans, for example are subject to selective taxes in France and Italy, and semi-processed cocoa products are taxed selectively in France, Italy, Denmark and Norway. Cocoa powder is subject to a commodity tax in Japan. General consumption taxes, since they are imposed mostly for revenue purposes, are generally claimed to fall within the scope of fiscal rather than commercial policies and have so far been excluded not only from GATT negotiations but also from preferential regional arrangements such as that between the EEC and the 46 countries of the Lome Convention. Article 3 of the GATT permits the imposition of general internal consumption taxes provided they don't discriminate between domestic and imported goods. Moreover, most developed countries claim that since the price elasticity of demand for cocoa is low in these countries, the removal of consumption taxes while depriving them of substantial revenue, will not have any appreciable effect on demand. There are also various other internal charges in some importing countries which can be assumed to be pushed on to the consumer. A case in point is Switzerland where importers of certain semi-processed items are required to pay taxes imposed on these products, as a contribution to a guarantee fund out of which operating costs of the compulsory stockpiling programme are met.

Other non-tariff measures

Generally, cocoa beans and semi-processed cocoa products are free of quantitative restrictions in developed importing countries. Most major importing countries have various regulatory legislations concerning standards, health and sanitation, to be observed by exporting countries, some of which could serve as barriers especially to developing countries new to the trade. Thus, as has been pointed out above¹, there are in the United States alone about 14 "standards" regulations on chocolate products concerning identity. The United

1) In the framework of the preparation for the GATT negotiations on non-tariff barriers to trade, a notification was submitted in connexion with Canadian regulations concerning standards of marking and labelling in respect of chocolate and other preparations containing cocoa.

States requires, in respect to chocolate, details of ingredients used, special labels or packaging and annual inspections of manufacturing on health and sanitation grounds. In the EEC member countries there are regulatory limitations on the corn syrup content of chocolate and preparations containing cocoa. A rigorous examination of the food and health regulations of most importing countries may reveal more such measures which may at times be very confusing or contradictory to the regulations of other countries. The CODEX Committee (of the FAO/WHO CODEX Alimentarius Commission)¹ on Cocoa Products and Chocolate has been attempting, since a number of years, to elaborate international standards for this sector. This is a problem which will require urgent consideration as developing countries increasingly export their production in processed form.

State trading and export taxation

On the side of exporters one can point at two measures which might be considered either as barriers or capable of acting as barriers to the free flow of trade, namely, state trading in cocoa and the imposition of an export tax on cocoa. State Trading is essentially a form of enterprise ownership², and may be a barrier to trade to the extent that the state-trading unit is, a price-maker which exercises its monopoly or monopsony power. The Ghana Cocoa Marketing Board whose policies have been analysed earlier acts both as a monopoly and a monopsony as far as the domestic aspect of the cocoa industry is concerned and is therefore capable of setting the domestic producer price; on the other hand it forms part of a rather imperfectly competitive world cocoa market and to that extent is a price-taker. Its policy of keeping domestic producer prices fixed for long periods often well below market prices can be denounced as being disincentive to production and to trade expansion. This is all the more so during periods of high inflation when the purchasing power of the farmer is already under strain. Table II for example shows that the share of the farmers as related to the world price was in 1970 as low as 35 per cent. The rigid pricing policies of the Board often destabilize the "income" of farmers instead of stabilizing it.

Cocoa export duties

Export duties on cocoa are levied in one form or another in most exporting countries. Cocoa duties were introduced into the Ghanaian taxation system as far back as 1916. As it was explained by the then head of the colonial government, the main purpose of the imposition

1) The work of the Codex Alimentarius Commission which consists of elaborating international standards on food is aimed principally at (i) protecting consumers against health risks, fraud and adulteration (ii) ensuring fair practices in the food trade and (iii) by reaching international agreement on food standards, removing some of the non-tariff barriers to international trade.

2) "State Trading : Instrument or Object of Trade Control" - by H. MATEJKA (Journal of World Trade Law, Vol. 8, No 2, pp. 209-214, March/April 1974).

was (and is still) to raise fiscal revenue for the government. It was also advanced that since the duty was in the form of a specific duty its ad-valorem equivalence meant a lower incidence on higher priced cocoa and it would thus serve as an incentive for the production of higher grade cocoa. Together with import duties, cocoa export duty contribute currently over 40 per cent of Ghana's total revenues, a factor which has militated against any reforms aimed at alleviating this tax burden on the industry. Since 1961 its share of total revenue has ranged from a low of about 7 per cent in 1966 to 34 per cent in 1970/71.

The importance of the imposition of an export duty on cocoa for this study lies in its relevance as an instrument of commercial rather than of fiscal policy, in other words its possible effects on production and trade. The structure of the tax depends to a large extent on the world price on the one hand, and the producer price which is fixed at the beginning of the season on the other. Roughly speaking the level of the tax is the difference between these two prices, after leaving a margin to cover the administrative and operational costs of the CMB (see Table II). The rate of the tax can be as high as 66 per cent depending upon the world price of cocoa. Due to the fixed producer price policy practised by the Board, the farmer is not directly affected by the incidence of the tax. He is however affected to the extent that its high rate may not leave the Board enough room to practise a more flexible price policy. Where producers prices are kept fixed for a long time, rising production costs and inflation tend to render them unremunerative, and disincentive to production. In years of relatively low prices, farmers have been known to neglect their farms or even switch to the cultivation of other crops. It has been argued in defence of the present pricing policy that the cocoa farmer receives "in lieu" of higher prices a number of highly subsidized inputs and services. But then, other farmers producing food and other cash crops and who receive similar subsidies are only lightly taxed or not at all. Moreover in the case of the cocoa farmer the inputs and services obtained cannot be really considered as subsidies since they in fact paid for from the part of the price which has been retained in taxes. The cocoa industry is the most important sector of the economy and may have to bear a proportionately large part of the tax burden, however, it must not be such as to act as a serious disincentive to its healthy development as has been the case in recent years.

Other NTB's

Quantitative export controls have so far not been successfully used by exporting countries individually or collectively to regulate trade. During the last world war a system of export quotas was practised in Ghana but this was more a monopolistic market sharing device used by the major exporting firms than an attempt to regulate the export trade whatever its indirect effect on it might have been. Between 1940 and 1942 the Cocoa Authorities in Ghana were cons-

trained to destroy about 240,000 tons of cocoa, more by the exigencies of the war situation than by normal market conditions. The failure of the producer cartel CPA to regulate prices through quantitative export controls has already been analysed above.

In their search for new export markets some producing countries including Ghana have concluded bilateral trade agreements with some centrally planned economy countries. Where the supply obligations involved in such agreements are fulfilled within the framework of a generally expanding trade they have healthy effect on the market, otherwise they can disrupt the market through trade diversion¹. It must be emphasized that as long as an internationally agreed control of the cocoa market has not been successfully worked out, the temptation for producers to resort to such practices as export controls, bilateral supply agreements and discriminatory pricing, especially in periods of surplus production, will remain.

SOME GENERAL CONCLUSIONS

The cocoa industry is the major economic sector of Ghana and may remain so for some time to come and the need for a long-term comprehensive policy for the industry cannot be over-emphasized. As it has been stated "In the past, developments in the industry have just happened, they have not been willed. Public measures, certainly, have helped them to happen; for example, the Marketing Board price policies and the extension services, but these have not amounted to a comprehensive policy. The difficulties of formulating a confident and well-informed policy should not be an excuse for not formulating one at all. To allow the development of the industry to be the accidental by-product of policies designed for other purposes would not be compatible with the desire for a planned economy"². A long-term comprehensive policy on cocoa must embrace all aspects of the industry, production, processing, internal and external marketing and pricing. A policy on production must take into account not only the general world trends in demand, but also production trends in other producing countries and its domestic economic cost in terms of allocation of resources. Unplanned production increases may be inimical to a policy of maximizing cocoa export earnings. Allied to a crop production policy should be that of aiming at a vertical diversification of the industry through greater emphasis on processing, with a view to the creation of a more integrated industry, and increasing exporting earnings while at the same time creating more employment avenues.

A reform of internal marketing must aim not only at removing the bottlenecks in transportation and storage but also such practices

1) Between 1966 and 1969 Ghana was obliged to deliver beans at a price relatively lower than that prevailing on the world market in fulfilment of a long term sales contract of 150,000 tons, signed during the 1965/66 season with the Soviet Union.

2) Study of Contemporary Ghana, op. cit. p. 390.

as paying farmers through chits instead of cash, false declarations by buying agents, and speculative sales. Within the overall policy of maximizing export earnings the external marketing policy should aim at obtaining the highest marketing price for Ghana's cocoa. This implies that sales should closely follow short and long-term price movements on the market. Unfortunately balance-of-payments problems and the persistent acute shortage of foreign exchange have obliged reliance on forward sales often resulting in considerable loss in foreign exchange especially in periods of rising prices. It is also questionable whether the policy of organizing external sales from Accra, away from London, the nerve-centre of the international cocoa trade, a decision taken in 1960 more for political than for commercial reasons, has not acted as a barrier to the exploitation of advantages presented by day-to-day price changes on the market¹. A marketing policy should also embrace a dynamic export promotion programme, involving market research, demand stimulation and product development programmes. As consumption stabilizes in the industrialized countries, the areas of potential consumption growth such as the centrally planned economy countries of Eastern Europe, the Middle East, Latin America and to some extent Africa should receive greater promotional attention. Like the other elements of a possible comprehensive cocoa policy discussed above, a pricing policy should take into consideration both its internal and external aspects. A rigid producer pricing policy involving wide differentials between producer and world market prices and which does not take into account domestic inflationary pressures and rising production costs is bound to be disincentive to production and new investment in the industry. A completely flexible price system is administratively impossible to maintain and will encourage domestic price speculation. Nevertheless a stable producer price structure, which, while protecting farmer from the vagaries of the international market price, is flexible enough to take into consideration inflationary and cost factors can act as a major incentive to production. The recent practice of paying an end-of-season bonus to farmers in areas where improved production levels have been achieved, is an unsatisfactory compensation for a deficient price structure. This brings into focus the need for the government to reconsider its reliance on cocoa export duty as a major revenue source.

With regard to the question of the stabilization of world market prices, it is evident that Ghana, though the most important producer, cannot basically act alone, and has consequently followed a policy

1) In 1971 the Busia government concluded cocoa sales agency agreements with Messrs J. Aron and Company (Inc.) of New York and Messrs Martin Sturcken and Compagny of Hamburg, which made them the sole agents of the CMB in the US and Europe respectively. This arrangement which was meant to enable the Board change its sales strategy from undue reliance on forward sales to spot transactions was ended in 1972 when the new administration abrogated the agreements. It was argued that the agreements would have meant the country loosening its control over the external marketing of a commodity of primary importance to the economy. The agency fees involved in the contracts were also considered exorbitant. Once again a political change has prevented a commercial policy change from being effectively implemented.

of concerting policies and action with other countries within an international framework ; the examples being the Cocoa Producers' Alliance and the International Cocoa Organization. What has so far been lacking is an exercise, leading to the formulation of a long-term national policy on the whole issue of international cocoa price stabilization, embracing such fundamental questions as whether stabilization is possible and is in the long-term interest of the country. Such a long-term view is basic to the formulation of a comprehensive policy for the cocoa industry, and will also enable the government to formulate, if it considers necessary, a counter-cyclical export income stabilization policy since cocoa is the main export earner. A very fundamental issue in the formulation of a long-term cocoa policy is the overall imperative, already discussed in other chapters for the country while maintaining a healthy cocoa industry, to diversify its economy away from a too narrow reliance on it. In the long run, a well diversified economic base can provide a healthy framework for a dynamic cocoa policy.

STATE TRADING IN GHANA

INTRODUCTION

The Ghanaian economy is essentially a mixed economy with regard to the participating sectors. There are four main sectors, the private enterprise sector, which is the dominant sector ; the co-operative sector, a minor and developing one ; the joint state private sector and the fully owned state enterprise sector. It has been estimated that in 1972 approximately 85 per cent of the GNP was accounted for by the private sector¹. Agriculture is predominantly in the hands of the private sector with the exception² of the marketing and distribution branches. Apart from the extraction of timber and a few plantations the participation of foreign enterprise in agricultural production is insignificant. This is, however, not the case in the mining and manufacturing industries. The mining industry is shared almost equally between the state and foreign private enterprises. After about 25 years of state participation, the industrial manufacturing sector is about 75 per cent privately owned or jointly with the state in a few cases. The importing and distributive trades are also dominated by the private sectors despite the existence of a large state owned trading corporation. In this sector small and medium sized indigenous firms co-exist with foreign enterprise ranging from the medium sized in individual firms to local branches of transnational companies. In the financial field, state participation has grown from nothing in the late fifties when there was total domination by the foreign private enterprise to the current situation where this domination has passed to state enterprises. The co-existence of state and

1) Ghana Economic Review 1972-73 (Editorial and Publishing Services - Accra), p. 27

2) The attempt by the government to introduce a system of state farming in the late fifties and the sixties ended in a dismal failure despite the heavy investment in machinery and manpower. The reasons for the failure were many, policy wise, ideological and technical. The basic idea of a state participation in farming was not well received by the farming community all the more so as it was accompanied by compulsory land acquisition ; the organizational framework was heavily influenced by party patronage, incompetent management and high administrative overheads ; the attempt to use ideologically oriented party cadres in place of specialists from the traditional Ministerial organizations led to a disorganization of the extension and supporting services ; a dramatic aspect of the failure was the introduction of mechanization unsupported by the necessary manpower and technical services. It has been estimated that the state farms contributed to not more than one per cent of agricultural production.

private enterprise has not been an easy one, state enterprises which were often the least efficient enjoyed preferential treatment in the allocation of import licenses, government contracts and jobs, etc. Foreign private enterprises were often made the scapegoat for the problems facing the economy.

In this chapter, attempt will be made to discuss aspects of direct state participation and intervention in the economy within the context of the country's commercial policies. In commercial policy terminology state participation is sometimes called state trading¹, but this is a term which needs a more elaborate definition all the more so as it is practised both by centrally planned economies as well as by developed market economies and developing countries.

In the centrally planned economies where practically all forms of production and trade is in the hands of the State, state enterprise is the basic unit of production and of trade², and some of the problems emanating from this phenomenon are different from those arising from state enterprise in market economies.

The term has been defined rather loosely as a "direct participation by the government, or its agent, in foreign trade including those activities in which the government, or its agent, holds title to exports before transaction and acquires title to imports"³. The provisions of article XVII of the GATT⁴ which deal with state trading enterprises failed to give a precise definition to the term, limiting itself to laying down the rules and guidelines for their operation within the international trade system. However in the report⁵ of a panel set up to interpret some of the provisions of the Article, a number of basic elements came out which have come to be accepted as forming the essence of state trading. The term "enterprise" was used in the report to refer either to an instrumentality of government which has the power to buy or sell or to a non-governmental body with such power

1) For a good discussion of state trading especially within the context of world trade law, see "World Trade and the Law of GATT" - by J.H. JACKSON (published by the Bobbs-Merrill Company Inc. 1969) p. 329-364. For a discussion more in a commercial policy context, see Gerard CURZON, "Multilateral Commercial Diplomacy", op. cit. p. 290-312.

2) See SERGEYEV "Economic Principles of the Foreign Trade of Socialist States" - International Trade Theory in a Developing World, p. 277, 282 (edited by R. Harrod and Douglas Hague, 1964). Some of the theoretical issues concerning the foreign trade of socialist countries will be discussed in chapter nine of this study.

3) See "Proceedings of the First Session of UNCTAD (Volume VII, page 2. See also the footnote to the definition).

4) Paragraph 1 (a) of Article XVII which attempts a definition lays down that :

"1. (a) Each contracting party undertakes that if it establishes or maintains a State enterprise, wherever located, or grants to any enterprise, formally or in effect, exclusive or special privileges, such enterprise shall, in its purchases or sales involving either imports or exports, act in a manner consistent with the general principles of non-discriminatory treatment prescribed in this Agreement for governmental measures affecting imports or exports by private traders'

5) GATT, BISD, 8th Supp. p. 142-43 (1960).

and to which the government has granted exclusive or special privileges. State trading was also interpreted to cover the activities of a marketing board or any enterprise where that body has the ability to influence the level or direction of imports or exports by its buying or selling. Where an enterprise is granted exclusive or special privileges, the exporting or importing activities carried out in pursuant to those privileges were also considered as coming within state trading reporting obligations of Article XVII, even if the enterprise is not itself the exporter or importer.

Despite the merits of the above definition, it does not appear to take into full consideration the growing tendency in some countries both developed and developing, with a mixture of planned and market economies, for some state enterprises to participate directly in production or to be competitive in their commercial activities rather than monopolistic or have special and exclusive privileges. The latter tendency has even been noticeable in some centrally planned economies, where state enterprise units are being encouraged to compete among themselves as a way of promoting greater efficiency.

Another major issue in the definition of state trading is whether it should be considered as an instrument of trade control in the sense that it can be used to regulate the level or direction of trade in the same way as such classical instruments as taxation, subsidies and quantitative restrictions. State trading has hitherto been widely considered as an instrument of trade control¹, but as Matejka² has recently demonstrated, this has been due to a misleading interpretation of its nature and form and that state trading should be regarded purely as a form of enterprise ownership. It was pointed out that the claim made for state trading as an instrument of trade control was based on its monopolistic attributes which may enable it to restrict trade below the competitive level, without any external intervention. Normally, a trade monopoly will restrict trade, as compared to the competitive free trade situation only to the level at which the monopolist maximizes profits. Short of this or beyond this any restrictions or expansion must be achieved by the intervention of the central authority by means of the appropriate tax, quota restrictions or subsidies or through some secret agreements unlike the case with the traditional trade regulatory instruments which can be set to determine a variety of trade levels at any one time³. Thus bereft of its monopolistic attributes, and specially, where it is in the form of a competitive enterprise, as is prevalent in many developing countries, state

1) See J.E. MEADE. "The Theory of International Economic Policy, Volume II : Trade and Welfare, London, Oxford University Press, 1955 pp. 176-85 ; C.P. Kindleberger, *International Economics* Homewood III., Richard D. Irwin Inc., fourth edition, 1968 (The Irwin Series in Economics) ; p. 130, implies very loosely that state trading, like tariffs, has a variety of "effects" produced by interference with trade or its reduction.

2) See State Trading : Instrument of Object of Trade Control. *Journal of World Trade Law*, Vol. 8, N. 2. (March/April 1974) p. 209-214

3) This analysis holds even if the objective of the state trading enterprise is not the maximization of profits but of sales or the maximization of foreign exchange receipts.

trading, takes the form purely of an enterprise ownership and cannot restrict nor increase trade except where the central authority intervenes through taxation, subsidies, quantitative controls, or some special directives.

OBJECTIVES AND AIMS OF STATE TRADING

Governments engage in state trading for various reasons. For the centrally planned economy, it provides the only practical way in which the economic plan can be effectively implemented. In market economy countries the reasons are somewhat different. In a large number of countries, both developed and developing, for example tobacco and alcohol are imported and marketed by state organizations because the sale of such commodities provides a substantial source of revenue. State trading in narcotic products, alcohol and pharmaceuticals is often maintained to protect public health. Similarly, trade in arms and ammunitions is generally subject to state trading for purpose of national security.

Apart from the above objectives, state trading in developing countries has been pursued for the following reasons¹, depending upon the national goals and objectives of the country concerned ; (a) to ensure adequate and regular supplies at reasonable and stable prices of essential commodities to meet local demand (b) to ensure better prices for exports and imports of products through increased bargaining power (c) to encourage production of essential agricultural and industrial commodities by means of price and other incentives (d) to stabilize the domestic prices of specified products by controlling their production and marketing (e) to explore export markets for products and to dispose of exportable surpluses of commodities (f) to secure the advantages of bulk transactions (g) to facilitate trade with centrally planned economies (h) to facilitate the implementation of trade agreements and barter deals (i) to facilitate the import of goods financed under foreign aid programmes (j) to transfer trade from the control of non-nationals (k) to raise revenue for the treasury (l) to influence the changes in the distribution of income derived from foreign trade operations (m) to help in fulfilling certain socio-political objectives such as the transfer of enterprise and means of production from private to public ownership.

These objectives reflect the general tendency in developing countries for the state to participate fully in the economic life of the nation, either in a leadership role or to fill the vacuum created by the absence of indigenous involvement. Another factor which has motivated the creation of state trading enterprises in developing countries is that they at times represent a rational approach to development. In many developing countries with narrow domestic

1) Proceedings of UNCTAD. 1st Session. Volume VIII. op. cit. p. 2-4.
See also G.P. Verbitt, op. cit. p. 130-131.

markets, many governments find it rational, instead of allowing the installation of many small uneconomic plants to create single large enterprises with monopolistic rights of production. The same reason of apparent efficiency explains often the creation of marketing monopolies.

There is hardly any instance in which state trading is pursued to attain only one specific economic objective ; in most countries it is pursued for a mixture of economic and political objectives. In some countries, state trading in large sectors of import and export, as well as in the domestic sector, forms part of the larger national policies of the government.

STATE TRADING AND THE INTERNATIONAL TRADING SYSTEM

Despite its widespread use, state trading is a very controversial issue in international trade, since it is considered under certain situations as derogatory to the free market economy system and therefore a major barrier to the development of a multilateral international trading system based on the principle of comparative advantage. This point is succinctly brought out by Scammel¹ who considers that the basic characteristic of state trading is that the normal forces of the price system in international trade are replaced by a pattern in which prices are fixed by state decision in accordance with a wide variety of motives. Instead of the trade pattern being determined by prices, costs and the related strengths of demand, decisions on the desirable volumes, directions and content of trade are taken by governments, and prices are used actively or passively in accordance with these overall aims. In the market economy countries state trading has been condemned as being fundamentally irreconcilable with the most-favoured-nation principle and as being an inherently discriminatory means of conducting foreign trade. While it could be tolerated with regard to a few goods, or agricultural products in general, the principal western trading nations are opposed to the idea of state trading as the normal means of regulating import and export trade. State trading is thus considered as being opposed to the principle of GATT. The first approach of the principal trading nations in dealing with State trading was to seek a guarantee that State enterprises could behave in their purchasing and selling as private importers and exporters. In their trade agreements countries sought to implement this policy by inserting an article providing that State enterprises must be guided in their purchase and

1) See *International Trade and Payments* by W.M. Scammel (Macmillan Co Ltd 1974), p. 234-235. It appears that in this context, Scammel was writing about state trading as practiced by the centrally planned economies, and not simply as a form of enterprise ownership.

sales "solely by commercial considerations"¹. This principle has been enshrined in Article XVII I., (b) of GATT.

In practice the "commercial considerations" clause has not been a great success. In the first place, it is almost impossible for exporters to obtain the kind of information that would enable them to determine whether the State enterprise is basing its actions on «purely» commercial considerations. Moreover the clause contains an inherent contradiction, for where State traders are monopolies it would be strictly in accordance with "commercial consideration" for them to pursue monopoly buying and selling policies. Finally the clause has been subject to a rather broad interpretation in various countries.

The controversy surrounding the practice of State trading has not prevented its widespread use by developing countries, who regard it as a legitimate means of conducting foreign trade. A resolution to this effect was adopted at the first session of the United Nations Conference on Trade and Development².

1) The language of the "commercial considerations" clause has been refined since its introduction in 1930 and currently a widely used version reads as follows: "Each Party undertakes (a) that enterprises owned or controlled by its Government and that monopolies or agencies granted exclusive or special privileges within its territories shall make their purchases and sales involving either imports or exports affecting the commerce of the other Party solely in accordance with commercial considerations including price, quality, availability, marketability, transportation and other conditions of purchase or sale, which would ordinarily be taken into account by a private commercial enterprise interested in purchasing such products under the most favourable terms; (b) that such other Party shall be afforded adequate opportunity in accordance with customary business practice, to compete or participate in such purchases and sales"

The redefinition and reinforcement of the provisions of the GATT on government procurement has been one of the major issues in the *Tokyo Round*. The efforts have centred around the drafting of a code on government procurement practices, the main objective of which are concerned with the application of the principles of non-discrimination as between domestic and foreign suppliers, the assurance of transparency in government procurement operations, and provisions relating to surveillance and dispute settlement. Special and differential treatment for developing countries are to be provided for where feasible and appropriate.

2) The Conference

Recognizing that direct participation by governmental trade organizations in foreign trade, including those trading activities in which the Government or its agent holds title to exports before transactions and acquires title to imports is being pursued by many developing countries with mixed economies for the purpose of expanding their foreign trade.

Noting that government participation in foreign trade is assuming increasing importance in a number of developing countries.

Further noting that these developing countries are achieving satisfactory results by trading through this method.

Realizing that participation by Governments of developing countries in foreign trade could be an effective instrument and consistent with the promotion of international trade and development.

Recommends

(a) That direct participation by governmental trading organizations in foreign trade as defined above be recognized and accepted as one of the effective methods and instruments of promoting the foreign trade of a number of developing countries;

(b) That developed countries should not discriminate against trade with developing countries on the ground that their governmental trading organizations directly participate in trade as a public policy.

(Final Act of the United Nations Conference on Trade and Development, Annex A. V 1 4).

FORM AND NATURE OF STATE TRADING IN GHANA

State trading has been a feature of the Ghanaian economy since the colonial days with the establishment in 1947 of the Cocoa Marketing Board. The proliferation of State trading agencies is however a fairly recent phenomenon. The basic motivation in Ghana just as in many other developing countries lay in the realization of the necessity of direct State participation in the economy, not only in its regulation, but also in production, marketing and distribution. This has been justified for economic, political, and social reasons some of which have been mentioned earlier. The establishment of the Cocoa Marketing Board was originally justified by the objective of stabilizing the income of farmers, an objective which is now only one among many others ; the Industrial Development Corporation, now replaced by the GIHOC was set up at a period when only the Government possessed the necessary accumulated capital or could muster the necessary managerial know-how for an effective indigenous participation in industrial development ; in turn these institutions became a useful training ground for management and entrepreneurship. Many Ghanaians engaged in business have at a certain period been employed by foreign enterprises and trading firms which have thus served as useful training grounds. It was also realized that it is only through a direct and effective government participation in certain vital sectors of the economy that the interest of the nation could be protected, the policies of the government more effectively implemented, and the monopolistic control of foreigners in certain sectors of the economy broken. These reasons could be evoked to justify State participation in banking, insurance, import trading, mining etc. There is hardly any sector in Ghana in which one cannot find State participation in one form or the other.

The next few sections of this chapter will be devoted to an analysis of the nature, policies, and operations of the various State trading bodies in Ghana, and their effects on the country's commercial policies in general.

Marketing Boards and Corporations

Marketing Boards and Corporations are the most prevalent form of State trading institutions in Ghana and among these the State Diamond Marketing Corporation, the Ghana Timber Marketing Board and the Cocoa Marketing Board have the longest history.

The Diamond Marketing Corporation is required under its instrument¹ of incorporation to secure the most favourable terms for the purchase, grading, valuing, export and selling of all diamonds produced in Ghana and to help in the development of the diamond

1) The Diamond Marketing Corporation was established by Legislative Instrument N^o 401 of March 1965, and superseded the Ghana Diamond Marketing Board (E 1 367 of 1962) which in turn took over the functions of the Accra Diamond Market.

industry in Ghana. As the sole exporter of diamonds in Ghana it controls and fixes the prices to be paid to diamond winners and producers for their diamonds, with the prior approval of the Minister responsible.

The price of diamonds is set by the Corporation on the basis of the world market price. It is well known that a large part of the output of the private sector is smuggled out of the country, as producers are able to obtain higher cedi prices than they can from the Corporation due to the gap between the official and the parallel market exchange rates. To discourage and minimize this practice, the the Marketing Corporation pays higher prices to private miners than to state enterprises ; any losses incurred by the Corporation are then covered from governmental revenue sources.

The Timber Marketing Board¹ is more of a regulatory and promotional body than a marketing monopoly. Its policies have been in a process of constant evolution ; it has gradually taken over from the Ministries of Agriculture and Trade as the main instrument of government control over the industry. The board's main objective is to rationalize the industry and increase its foreign exchange earning capacity. As a step in the attainment of this objective, it encourages vertical integration between sawmilling, plywood milling and eventually furniture manufacturing. It now directly participates in saw milling and furniture and joinery enterprises. As part of its supervisory role, it undertakes rigorous inspection of contracts and lumber parcels to stop under-invoicing.²

The Cocoa Marketing Board

The policies of the Cocoa Marketing Board have already been discussed in Chapter six ; here the interest will be to analyse its structure and functioning in the context of a State trading body, probably the only one in Ghana which fully satisfies the definition.

It is wholly owned by the States, and functions as a commercial monopoly and an instrument of government policy. The Board's

1) The Boards, functions and objectives have been more exhaustively discussed in chapter six.

2) In 1973, after obliging all foreign-owned timber export firms to incorporate locally, the government stipulated that all export sales should be channeled through the Board's approved agents in London and Ghana. This, together with the Board's greater control over export contracts and pricing system mentioned above was aimed at checking underpricing and other sales mal-practices. However this policy not only led to the disruption of Ghana's export market but also, as has been pointed out in the preceding chapter, to the adoption of a rather rigid pricing policy, with a negative effect on the country's competitive ability. This was brought into greater relief by the 1974 slump in the world timber trade. The Board reviewed its policy early in 1975 and as a result timber exporters could select their own agents abroad to market their products. Agents so selected would however require accreditation from the Board. In addition to agents sponsored by shippers, the Board maintains its own agents as required. In a renewed attempt to stop under-invoicing the Board was in 1977 made the nerve-centre of all export-sales. Henceforth no export sales could be made without export licence from the Board.

monopoly is however only limited to the marketing of the commodity, and although it plays a major role in the promotion of production it has so far not directly participate in the production of raw cocoa. The CMB is managed by a board of directors appointed by the government and headed by an executive director or a chairman. While the choice of the Board's members is made with an eye to its efficient management political considerations have always played an important role, in view of the preponderant importance of the industry to the country's economy and hence the desire of successive governments to subject it to an amount of political control. The Board is responsible for the day-to-day operations and management, however it comes under the broad policy responsibility of the Ministry of Trade and since February 1975 of the Ministry for Cocoa ; thus the fixing of the producer price is more a decision of government policy than of the Board, as dictated by commercial considerations. The amount of autonomy it requires for its normal commercial operations and administration and the desire of the government of the day to control its policies has been a constant source of friction.

The policies and activities discussed in the preceding chapter underlines the extent to which the freedom of action of state trading bodies in Ghana is limited by the obligation to act within the confines of general government policies. The government's reliance on cocoa export tax for a substantial part of its budgetary revenue has for example prevented the Board from having a more flexible producer pricing policy with the result, that it has in recent years become disincentive to production.

The government's bilateral trade and payments agreements with some centrally planned economy countries in the sixties involving long-term contracts for the supply of cocoa often obliged the Board to divert¹ supplies to these countries sometimes at prices lower than those prevailing on the world market. And as has already been pointed out, the Board's tendency to resort to forward sales sometimes involving substantial losses has been partially dictated by the country's chronic shortage of foreign exchange. The result of all these and other factors is that the Board's policies and strategies sometimes fall far short of efficient commercial norms.

1) The practice of making long term sales contracts has since been stopped.

The evolution of the structure of the Cocoa Marketing Board during the last twenty five years illustrates the tendency for some of these state institutions to grow beyond the original objectives and policies for which they were established ; such that a body like the CMB has become more of multi-purpose institution, acting not only as a marketing Board, a commodity development and promotion body, but also an agency for social and economic infrastructural development and even a fiscal agent for the government. The CMB has sometimes been described as being too monolithic, a sort of state within a state. This presents both administrative and general political problems. Administrative problems arise from the need to co-ordinate the activities of the various commercial and purely administrative organs, problems of staffing and financing, and the relations with other governmental institutions. The political problems, some of which have already been mentioned arise often from the government's desire to exercise full control over the policies of the Board, sometimes to the detriment of commercial efficiency. The importance to the Government of the political support of the rural population which make up the bulk of the country's population is not irrelevant to this issue. This desire to control the policies of the Board has often meant appointing supporters of the government in power to positions of authority ; while this may be understandable, it has often been abused. The creation of a Cocoa Ministry early in 1975 is bound eventually to lead to a streamlining of the structure and functions of the Board.

National trading and procurement bodies

The Ghana National Trading Corporation (GNTC)¹

This is a state trading body in the sense that it is a wholly owned state corporation, but it participates in normal commercial import and retail business without any monopolistic attributes. It was set up in 1961 with the main aim of breaking the foreign domination of the import trade in Ghana and thereby enabling the government to participate in the profits accruing therefrom. It deals mostly in importing and retailing of all forms of merchandise but does practically no exporting although it is part of its statutory functions. It also engages in vehicle assembling and the bottling of soft drinks. It has in the course of time not only grown to be the largest trading firm in Ghana but it has also become a ground for training managerial and technical skills. Despite its position as a state owned firm it does not enjoy any extensive monopolistic rights, and operates in strong competition with the established foreign owned commercial firms. Nevertheless, it appears to enjoy special privileges such as exclusive

1) The GNTC was established under Executive Instrument No E 1 203 of 1961 and re-incorporated by Legislative Instrument No 395 of March 1965. This instrument empowered it to engage in trade in the same way as other trade and commercial organizations and to "organize and export from an import into Ghana, such commodities as the Corporation may from time to time determine".

right from time to time to import certain commodities, some preference in the issue of import licences and quotas and the allocation of foreign exchange, but as a profit-making firm it is obliged to apply strict commercial considerations in its pricing policies and general operations. However its instrument of incorporation provides that, the Corporation in determining its general pricing policies, should consult the State Enterprises Secretariat (now abolished), and the Ministry of Trade. It does a substantial part of its import trade with bilateral payment agreement countries and in this sense may be considered a tool of the government's bilateral trade policy. This situation arose when the main established foreign importing firms, at the beginning of Ghana's trading relations with the centrally-planned economy countries, were reluctant to divert some of their sources supplies to these countries with whom bilateral trade agreements had been concluded.

State Procurement Agencies

State procurement agencies either permanent or temporary have constituted another form of state trading institution in Ghana, the most important of which has been the Supply Commission.

The Ghana Supply Commission¹ is the main central body responsible for the procurement of government stores and supplies, taking over functions previously performed by the Crown Agents. It handles supplies on behalf of government departments, educational institutions and statutory boards and corporations. In addition to the processing and placing of orders, the Commission has been responsible for arranging the shipment, payment, inspection and progressing of the orders. The Commission is also responsible for the importation and refining of Crude Oil and the distribution of the finished products throughout Ghana. The Commission's purchasing policy is based on a non-discriminatory world-wide competitive tendering except where direct negotiation at Government level is considered more appropriate. Its sources of supply are well diversified covering Eastern European countries as well as Commonwealth and non-Commonwealth countries. Its establishment was justified by the necessity to centralize and rationalize government purchasing, with a view to avoiding duplication and wastage, and to their expeditiousness, especially as these supplies were exempted from import duties². A recent decree which authorized institutions to import directly has however reduced the importance of the Supply Commission as a State procurement agency.

Apart from such permanent institutions such as the Supply Commission, somewhat ad-hoc bodies have been set up from time to

1) See the Supply commission Act No 7 of June 1960.

2) On July 27 1971, the customs tariff regulations were amended. Among other things all government department and statutory corporation were henceforth required to pay import duties, excise duties, sales taxes, purchase taxes and import surcharges at the established rates.

time to deal with urgent situations. In 1967, a Logistic Committee was set up to handle the importation and distribution of certain products subject to persistent scarcity on the market. Similarly in 1972 an Essential Commodities Committee was created with the function of establishing a central depot for national and regional stocks of rice, corned beef, sugar, evaporated milk, flour, mackerel, matchest, baby foods, pilchards, codfish and bar-soap. It was not authorized as the sole importer of these products, but was also responsible for their warehousing and equitable distribution throughout the country. The Committee also had the duty of checking the smuggling, black marketing, profiteering and hoarding of the products in question. A number of the products was sold at subsidized¹ prices and the whole rationale for the creation of this purchasing monopoly was to maintain a steady flow and an equitable distribution of these products which have come to be considered as part and parcel of the consumption basket of Ghanaians, at prices which would cushion the inflationary impact of the devaluation of the currency.

In 1972 a Central Imports Agency as created by government decree with exclusive rights for the bulk importation of a selected group of industrial raw materials for distribution to all registered industrial importers. The basic aim was to ensure a regular supply of raw materials to the industries concerned and thus avoid the periodic shortages to which they were often subjected. This was in effect an import-regulatory measure.

Commodity production and development agencies

The Grain Development Board, the Ghana Tobacco Company², the Cotton Development Board, the Bast Fibre Development Board, Cattle Development Board, Food Production Corporation etc..., come under what may be considered as commodity development institutions. They do not possess any exclusive rights for the production of these commodities, their main objective being to promote production and

1) The designation "essential commodities" was later abandoned in favour of "foreign goods" and their subsidization, following the sharp rise in prices subsequent to the 48 per cent devaluation of December 1971, was abandoned in 1973. In 1977, the importation and distribution of these commodities were given over exclusively to a newly created National Procurement Agency.

2) The Ghana Tobacco Company is a joint venture between the government, state institutions and private enterprise. The capital of the company was contributed by the government (35 per cent), National Investment Bank, state owned (15 per cent); Agricultural Development Bank, state owned (20 per cent); Pioneer Tobacco Company, privately owned (30 per cent). The company's main aim is to promote the production and marketing of leaf tobacco in Ghana. It operates in the following fields: (a) provides extension services to all farmers of leaf tobacco; (b) provides marketing facilities of the purchase of the crop from farmers and subsequent sale to manufacturers; (c) arranges bulk purchase and distribution to farmers of equipment and materials required to produce the crop; (d) establishes experimental farms for limited trials and the seed multiplication of improved varieties; (e) arranges crop credit from the company's own resources or through other organizations. It has a monopoly in the purchase and marketing of tobacco leaf.

regulate marketing. While a certain degree of direct participation is done by some of the bodies such as the Cotton Development Board, the Bast Fibre Development Board, Cattle Development Board and the Food Production Corporation, promotion of production remains the basic aim, and this has been implemented through price incentives, and production subsidies of various kinds such as free distribution of seeds, and fertilizers, land clearing services at nominal fees, hiring of machinery at subsidized rates, subsidized transportation services, and free advisory services. The minimum price guarantee system operated by most of these bodies have the objective of stabilizing prices and thus act as an incentive for production ; but in a situation of constant short supply except at the very peak of the harvest period such a policy becomes impracticable as market prices often climb beyond the guarantee prices. The maize production surplus of 1974 amply demonstrated the utility of such a body in maintaining stable prices. As production yields a surplus for export, as happened in the case of maize, these bodies may assume monopolistic export marketing powers. The Cattle Development Board is not only charged with the development of cattle raising in Ghana but has an exclusive right for the importation of cattle, the objective being to ensure a regular supply of cattle for slaughter, and stabilize the internal price of meat.

Almost in the same category as the commodity development boards is the Ghana National Manganese Corporation which was created as a move towards a more rational exploitation of a wasting national asset, for in certain circumstances, only the State is in a position to determine the viability of such an asset although normally it can be argued that market forces are equally capable of performing the same function. In this particular case the decision was taken when the foreign transnational enterprise (Union Carbide) after exhausting the richer ores was envisaging abandoning operations. Another reason for the creation of this State Monopoly was that the mining operations were a major source of employment in the region and therefore had to be maintained as long as they did not represent a net loss. The main policy issue here was that of balancing the short-term profit or efficiency objectives of a private enterprise against longer term socio-economic national objectives.

STATE PARTICIPATION IN INDUSTRY¹

Evolution of policies

Considered strictly in the sense of state enterprise owner-ship, as defined at the beginning of this chapter, it is in the manufacturing sector that state trading has been most pervasive and problematic.

1) For a discussion of state participation in the manufacturing sector in the Nkrumah period, see "The Government and Manufacturing Sector in Ghana 1951-1966 by Pfof. D.K. Greenstreet in *Economic and Social Affairs* (published by the Economic Society of Ghana) Vol. 1, April 1965 - No 2.

This can be traced as far back as to the colonial era and as far as 1947 when a holding corporation (The Industrial Development Corporation) was established with the objective of promoting local industries and handicrafts. For the first ten years of the Nkrumah period 1951-61 it became the main channel through which the government's industrial policy was directed. The IDC provided financial, advisory and technical assistance in the establishment of various enterprises. It was also concerned with the training of indigenous personnel for management purposes. In promoting industrial enterprises, the IDC either formed subsidiary companies which it entirely owned on behalf of the state, or participated with private enterprise in associate companies. After 8 years of activity under the Nkrumah government there were 17 subsidiary companies of manufacturing enterprises of which 15 were in effective operation. In 1961 there were 21 subsidiaries and 6 of these showed a surplus. In 1961 the activities of the IDC were transferred to the Ministry of Industry, which also made responsible for the operation of 9 manufacturing establishments, mainly textiles that were under the Industrial Cooperative Society.

Early in 1964, the State Enterprise Secretariat (SES) was established as a presidential agency, charged with the responsibility of exercising general supervision over the running of various public corporations in order to ensure their efficient operation, and to look after government interest in mixed enterprises. There were some 20 state enterprises in 1966 under the SES as well as nine mixed enterprises. Before taxation, at least 10 enterprises out of 20 made a surplus. The SES brought a fair amount of order into some of the enterprises but it was working under a serious handicap. The secretariat neither held any shares nor equity in the operating enterprises and was thus not intimately involved in their financial fortunes. Owing to the rather loose association with the enterprise, there was a certain amount of confusion as to the responsibilities and authority of the secretariat. The concept of the secretariat was essentially governmental rather than commercial and its structure was considered totally inadequate to control such a large number of commercial and industrial enterprises. In 1968 a holding company, the Ghana Industrial Holding Corporation (GIHOC) was formed to take over from the State Enterprises Secretariat so that a secretariat of 20 corporations became one corporation with some 19 divisions. By the end of 1975 the GIHOC was administering 16 divisions, two wholly owned subsidiaries and three joint enterprises.

The real landmark in the evolution of policies in the area of state participation in industry was in 1966 when the socialist government of Nkrumah which not only favoured state ownership of the means of production but discouraged the emergence of an indigenous capitalist class, for ideological reasons¹ was overthrown. In a reassessment of the role of the state in industry in 1968, the new administration stated that :

1) Some of these issues have already been discussed in chapter II of this thesis.

“ ... Government generally believe that industry should be kept to the private sector both foreign and domestic to develop and that Government should only enter into industry to establish public industries of strategic importance to the state, or to pioneer essential new industries which private enterprise may not immediately be interested in promoting... ”¹

In the re-organization which followed the 1966 change in government and again preceding the establishment of the GIHOC, a number of enterprises were sold to private enterprise and it is the objective that the GIHOC will eventually become privately owned through the floating of shares.

Problems and issues

The problems and issues which faced state industrial enterprises arose partly from their very essence as state enterprise and partly from what can be considered as the birth pangs of a people taking their first steps in industrialization. In this sense the main factor was the creation of too many enterprises within a very short span of time.

The management level in state enterprises was generally weak, though there were some competent managers. The situation was similar regarding boards of directors where there was not only a lack of the requisite business acumen but also, wholly or in part, of the qualities of integrity, breadth of vision, and sound judgement. Members in most cases were selected more in terms of their support for the ruling party than that of proven leadership ability suitable for manufacturing enterprises. When board and managerial talent was available, it was often stretched beyond its capacity by appointment to a series of boards and committees. State enterprise suffered from shortage of experienced and skilled technical personnel and the gap was difficult to bridge in the short-run. A serious weakness existed on the supervisory level while shortage of trained accounting personnel led to haphazard planning and weak financial control.

Many of the enterprises were placed in a difficult situation from the commencement of their operations. Some were set up without adequate feasibility studies and the siting of factories often owed more to political pressures than to strict economic considerations. The financial problems were many and serious ; some projects were commenced without the necessary amount of working capital and consequently heavy reliance was placed on overdraft facilities at a high rate of interest from the commercial banks. The high sums obtained this way were often tied down in stocks, spare parts and unsold finished goods. State enterprises did not escape from the serious economic problems with which the country was beset. The balance of payments problems and the shortage of foreign exchange meant that not only were essential raw materials not forthcoming in

1) Ghana Industrial Policy Statement 1968.

sufficient quantities but also the licensing of imports and the inherent delays seriously disrupted production ; it also led to a heavy reliance on suppliers credits and the subsequent accumulation of high foreign debts, a problem already discussed in chapter II. Many factories under-utilized staff and machinery, a factor which was exacerbated by insufficient patronage of products by a discriminating public with an ingrained preference for high quality imports. The result of the under-capacity utilization, insufficient patronage and high administrative costs was that products had to be highly priced making them uncompetitive. They had to be protected by high tariffs and quantitative restrictions.

Not less acute were the political and social pressures which confronted most government enterprises and from which foreign owned enterprises were relatively free. Among the general public there was on the whole a lack of concern for the protection of state property. In staffing, nepotism was widely practiced by senior officials and preference was often given to party supporters with little regard for qualification. This undermined discipline and efficient administration. Many enterprises were over-staffed and often became the dumping ground for poor quality personnel.

In assessing the performance of the state enterprise as against the private enterprise, especially those foreign owned, one should take into the right historical perspective the process of industrialization during this period. In a way the country was paying the historical price for an economic environment which was not capable of swiftly producing an adequate supply of competent managerial talent and skilled technical personnel that were required for large scale manufacturing enterprises. At some juncture a start, however, had to be made in establishing such enterprises, and it was the government that was looked upon to take the initiative. State enterprises were therefore passing through birth pangs normal to many new ventures. Moreover unlike state enterprises and agencies, the private enterprise was neither required to act in the public interest nor to consider seriously the social effects of their actions. In spite of the difficulties encountered during the sixties many state enterprises were able to increase output and value-added. However, the economic price paid was quite enormous. Most of the state enterprises could survive only behind high protective walls. The uncompetitively high prices and the relatively poor quality of the products constituted for consumers a loss of welfare. Many have had to be continuously subsidized from public funds and the degree of wastage of scarce foreign exchange and of public investment was high. Other commercial policy issues in the manufacturing sector have been discussed in preceding chapters and will not be repeated here. In any final assessment of the state participation in the manufacturing sector in Ghana in the past two and half decades, one must however contrast the short term loss in welfare against the long term benefit in helping to lay the foundation for the country's industrial development.

CONCLUSIONS

The influence of state trading on the country's structure and pattern of trade must be looked at, in connection with some of the definitions attempted at the beginning of the chapter. As it was pointed out, state trading which is a form of enterprise ownership cannot in itself be considered an instrument for the regulation of trade in the same sense as the classical instruments of commercial policy such as tariff, quantitative restrictions, subsidies, etc... The institutions studied above can at best be considered as tools in hands of the government for implementing its economic and commercial policies. The pricing policy, for example, of the Cocoa Marketing Board, has directly influenced investment, production, and supplies; but this has nothing to do with its essence as a state trading body but is due to the fact that it has been implementing the specific directives of the government in the same way as a privately owned enterprise would have done. This is a basic source of the accusation often made against state trading bodies of being prone to practising rigid and "administrative" pricing policies, rather than policies dictated by strict commercial criteria. The Marketing Boards and Corporations have been a useful instrument for implementing the government's trade policies toward the centrally-planned economies. Without these bodies it would have been difficult to effect the reorientation of trade which these policies implied. The governments' use of the GNTC and the procurement agencies to reorient the direction of trade to accommodate the obligations arising from bilateral trade agreements has made them prone to accusation of discriminatory practices.

As is the case with many other institutions in Ghana, the approach to State Trading is more pragmatic rather than dogmatic, with a large degree of flexibility not only in their structure and scope of operation but also in their legal framework. Even where monopolies have been created, there often exist side-by-side, a large measure of private participation either through specific government policy or by the force of circumstances. In a way this faithfully reflects the generally mixed nature of the economy. Indications are that the State Enterprise is likely to remain an important factor of trade and development. Much will depend fundamentally on the future direction of the country's economic philosophy. If the tendency towards a centralization of economic planning and control prevails, direct state participation in all forms of economic activity will inevitably increase. On the other hand as the local business elite grows it is very likely that many activities now handled by State trading agencies especially in trade and industry would be surrendered to private enterprise. A solution of the country's chronic balance of payments problem will also greatly reduce the necessity of direct state participation in foreign trade.

Chapter VIII

GHANA AND INTRA-AFRICAN TRADE

SOME GENERAL FEATURES OF INTRA-AFRICAN TRADE¹

1. Low volume of trade

The most fundamental feature of intra-African trade is its generally low volume, despite the fact that for certain African countries it is of major importance. Its share of total world trade was calculated in 1974² to be only 0.2 per cent and it forms an average of only 4 per cent of total external trade of Africa (Table 1). The exceptions are some landlocked countries³ like Niger, Chad, Upper Volta and Mali whose natural products find a market in the neighbouring coastal countries and from whom they receive an appreciable part of imports. In these specific cases it is not simply a question of complementarity but also the fact that there is a considerable transit and re-export trade with the littoral countries. The other group of exceptions is formed by the countries among whom a relatively high degree of industrialization and historical attachment have created the basis for trade. These are mostly Malawi, Rhodesia, Zambia, Mozambique and South Africa. In 1966 Ghana's trade with Africa formed only a meagre 3.5 per cent of her total external trade, in 1970 the figure was 4.8 per cent and 8.2 per cent in 1975. In absolute terms however it has meant a progression from about 14.8 million cedis in 1966 to 37.6 million in 1972 (see also Table II).

1) For a discussion of some of the basic problems of Intra-African trade see "L'Afrique commerce avec l'Afrique", Bernard Vinay (Presses Universitaires de France - 1968).

2) For sources see "International Trade 1974/75" - GATT Secretariat 1975).

3) In 1971 the percentages for these countries were : Chad 26.8 ; Niger 14.3 ; Upper Volta 25.8 ; Mali 19.5 (See for source "Statistical and Economic Information Bulletin for Africa" UN-E/CN.14/SEIB/8).

TABLE I

EVOLUTION OF EXTERNAL TRADE OF AFRICA¹ (1960-74)
(in million US \$ F.O.B.)

YEAR (A)	TOTAL EXPORTS (B)	INTRA- AFRICAN ¹ EXPORTS (C)	(C) AS PERCENTAGE OF (B)
1960	5,390	430	7.98
1963	6,290	480	7.63
1968	9,790	590	6.03
1969	11,320	660	5.83
1970	12,670	760	6.00
1971	13,120	870	6.63
1972	14,990	700	4.67
1973	20,880	1,010	4.84
1974	40,490	1,630	4.02

1) Africa excluding South Africa

Source : "International Trade 1974/75" - GATT (1975)

The basic reasons for the low volume of intra-African trade are to be found not only in the generally low degree of development which is reflected in the nature of production and the structure of trade, but also in the continent's colonial past. These factors not only precluded the development of any major manufacturing industries but produced a trading system by which Africa became a major source of raw materials and primary products for the metropolitan countries, while providing an easy market for their manufacturers. In fact, the whole economic development of Africa has been patterned on this North-South trading system ; the port system, transport and communication lines and the whole of the administrative infra-structure was developed in such a way as to favour trade with metropolitan countries. An indirect effect of this development was the neglect of intra-African trade.

2. Regional in nature

Another major feature of inter-African trade is its regional nature. The basis for this are (a) geographical proximity (b) common administrative, political and economic systems, e.g. between former colonies in the same region (c) the existence of certain complementarity either natural or acquired e.g. between the Sahel countries and the coastal countries of West Africa. Border trade, which is essentially regional, accentuates this fundamental feature of intra-African trade. Moreover as industrialization moves beyond the stage of purely

TABLE II

GHANA - AFRICAN TRADE

Country of origin/ Destination	Average 1964/69				1971		1972		1973		1974	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Nigeria	3.7	1.4	10.8	3.9	13.7	2.0	21.1	2.2	64.3	1.5		
Togo	0.1	0.1	1.3	0.7	1.2	1.2	2.1	0.2	3.7	1.0		
Upper Volta	2.8	0.2	2.7	—	1.2	0.1	2.3	0.1	4.1	0.4		
Ivory Coast	0.3	0.1	0.6	0.5	1.2	2.4	2.9	0.2	12.4	0.9		
Mali	2.9	—	4.5	0.1	3.2	0.1	1.8	0.1	2.4	0.2		
Mauritania	—	—	—	—	—	—	—	12.3	—	—		
U.A.R.	1.3	1.0	1.3	1.8	2.2	—	2.1	1.3	4.7	2.6		
Equatorial Africa	—	—	—	—	—	0.1	5.5	13.8	0.4	2.3		
Others	3.4	1.3	7.9	7.4	7.5	1.6	6.1	2.4	52.0	4.3		
Total	14.5	4.1	57.1	14.4	30.3	7.5	43.9	32.6	144.0 ¹	13.2		
Per cent total imports/exports	5.0	1.6	9.5	3.0	7.7	1.3	8.3	4.5	15.2	1.6		

1) The big jump in imports in 1974 reflects the tripling of the price of petroleum products.

Source : External Trade Statistics - Various Issues. (Central Bureau of Statistics) Statistical Handbooks. (Accra - Ghana).

satisfying domestic needs countries tend to first look for external markets in neighbouring states. Thus intra-African trade tends to be concentrated in regions and within regional economic groupings. In the North, trade is concentrated among the Mahgreb states ; in the East, among the member countries of the East African Economic Community ; in southern African among the member countries of the former Rhodesian Federation and between these and the Republic of South Africa a former member of the British Commonwealth ; in the West and central Africa intra-African trade is concentrated within the regional economic groupings dating from the colonial era, especially among the former French colonies. Ghana's position in this respect needs some explaining, for until the creation of the Economic Community of West African States (ECOWAS) early in 1975 she had not belonged to any definite regional economic grouping although at a certain time she had shared some common institutions with the former English colonies of West Africa. Much of Ghana's trade with Africa is with her immediate neighbours, namely Upper Volta, Mali and Niger in the North, Ivory Coast to her West and Togo to the East. Apart from this, there has been traditionally a substantial amount of trade with Nigeria dating from the colonial era when they shared a common currency.

It can be inferred from the regional nature of intra-African trade that trade between countries separated by long distances is rather limited, sometimes covering only a few products. Ghana's imports from Morocco for example are made up almost exclusively of tinned fish. Even where there is some diversity one or two products normally predominate. There is often a marked absence of reciprocity in long-distance trade. In 1972 while Ghana's imports from Tunisia totalled 3.5 million cedis her exports to the same country were almost non-existent.

3. Instability.

Another feature of intra-African trade is its unstable development, thus one can observe a major progress in one year and a complete stagnation or even a contraction in the following year. One major cause for such fluctuation in the rhythm of trade may be traced to internal economic difficulties such as balance of payments deficits which often lead to the imposition of import restrictions. This tendency to fluctuate is more marked with regard to long-distance trade than with regional trade which generally exhibits a stable growth. Moreover because of the generally low volume of transaction a sudden appearance or disappearance of clients or suppliers is easily reflected in the volume of trade.

4. Traditional border trade and smuggling

An important feature of intra-African trade is what has come to be known as "unofficial trade", a term which covers not only traditional border trade but also the large scale smuggling which goes on

sometimes with official connivance. A discussion of the nature and extent of this phenomenon is important both for its distorting effect¹ on trade and its adverse impact on the foreign exchange earnings and governmental revenues of some of the countries involved.

There are geo-political factors underlying the development of traditional border trade. Historically, movement of goods whose composition was often dictated by geographical complementarity took place freely among the various tribes and states, along known routes free of borders which were non-existent. Thus, for centuries Savannah products from the north such as cattle, leather and leather goods, fresh water fish, and grains have been traded for wood, metals and salt, forest products, etc..., from the south. The colonization of Africa during the nineteenth century by European powers and the tracing of frontiers irrespective of ethnic and geographical considerations introduced the element of illegality and clandestinity accentuated by the fact that most of the states created, lacked natural frontiers. With the transition into modern economies this traditional factor has been reinforced by customs and other commercial disparities arising out of the diversity of economic regimes existing. Thus to the traditional food and artisanal products have been added a wide variety of imported food and manufactured products, as well as exportable agricultural commodities which by force of circumstances, and contraband have to be traded clandestinely. The prevalence of smuggling in intra-African trading relations is therefore explainable, apart from the historical factors mentioned above, by (a) disparities in the tariff and fiscal régimes ; (b) disparities in the prices of both locally and imported manufactures ; (c) contradictions in the import régimes ; (d) the multiplicity of currency régimes, and (e) disparities in the producer prices of the principal agricultural exports. To these fundamental factors must be added the absence of efficient machinery for border patrolling and the corruption of officials.

The serious balance of payments deficits in the sixties and early seventies necessitating the introduction of stringent exchange and import controls, the unjustifiably low producer prices for Ghana's cocoa, high prices of local manufactures as compared with the prices of some duty-free imports into neighbouring countries, are some of the factors underlying the problem of smuggling. Most of the goods smuggled into Ghana comprise luxury or prohibited

1) The nature of the distorting effect on trade can be seen from the following illustration. The Niger Ministry of Animal Production issued a report which pointed out that while official customs control on the Niger border in 1970 recorded 101,648 calves exported to Nigeria, the official figure made available by the Nigerian authorities for imports of calves from Niger in the same year was 192,000. In 1969, the figure reported by the Niger authorities as export to Nigeria was 64,287 as against 195,000 reported by the Nigerian authorities. ("The growth of smuggling" *The Financial Times*, November 1 1972). Such discrepancies may be partly explained by the efficiency gap in the statistical services of the two countries, but a more convincing reason might be the extent of smuggling taking place.

imports such as perfumes, alcoholic drinks, cotton prints, watches, drugs, food products, and miscellaneous manufactures, while most of the goods smuggled out comprise local and imported manufactures of all kinds and most important export commodities such as cocoa, coffee and even timber. Although official estimates of the extend of smuggling is lacking it is known to be quite substantial and its effect on the economy far reaching. Smuggling of goods into the country imply not only a loss government revenue in the form of import duties but also by claiming part of the local demand which otherwise would have been directed to local goods, a serious problem is posed to the development of the already narrow market for manufactures. Smuggling out of the country of local and imported manufactures is known to be one of the major causes of the periodic shortages of commodities which plague the economy. Even more serious is the smuggling of cocoa and other agricultural export commodities out of the country. A recent study¹ estimates that in recent years an average of between 18 to 25.000 tons of cocoa are smuggled out into Ivory Coast and Togoland annually accounting to an extent, for the sudden growth in cocoa exports from the latter of these countries. This represents a substantial loss not only of foreign exchange² to the country, at a period it is in dire need of it, but also of government revenue in the form of export duties. The amount involved suggest that the smuggling could not wholly be the work of farmers crossing the border with small loads of the products at a time, but a well organized operation, involving the use of modern means of transportation which can only take place with the connivance of the border guards and officials concerned with the purchase of cocoa.

As long as disparities in economic regimes exist smuggling cannot be completely rooted out but some measures suggest themselves as means not only of controlling it but also of eradicating some of the fundamental causative factors. There is an apparent need for stronger, efficient border control by honest officials ; such a measure can only be effective when the governments involved agree and participate. This is perhaps illusory in view of the length of most of the borders which in most part are devoid of natural barriers and even not well demarcated. Even more important will be measures aimed at legalizing border trade such as (a) liberalizing trade on the border by suppressing some duties especially on locally produced food products,

1) See "Smuggling in Ghana. Its Magnitude and Economic Effects by Ashok Kumar (Universitas - vol. 2 N. 3 of March 1973 published by the University of Ghana). For a theoretical analysis of the economic impart of smuggling see : "Illegal Transactions in International Trade - Theory and measurement " - by Jagdish-N. Bhagwati (Studies in International Economics - Vol. I. North-Holland Publishing Company 1974).

2) The loss in foreign exchange to Ghana due to smuggling of cocoa alone was estimated at 28.2 c million (1968/69) ; 32.2 c million (1969/70) ; 34.4 c million (1970/71). It has been argued that a substantial part of the proceeds from the smuggled goods come back to Ghana in the form of other smuggled goods, thus representing a form of unofficial trade, but it is also to be assumed that a part rests in foreign bank accounts. The loss in the form of foregone government tax revenue however remains.

TABLE III
THE COMPOSITION OF INTRA-AFRICAN¹ TRADE (in million US \$)
Exports

Commodity Classification	Food, live animals and beverages and tobacco	Crude materials except fuels					Mineral fuels, lubricants and related materials	Animal and vegetable oils and fats	Chemical products	Manufactured goods	Machinery and transport equipment	Total		
Year	a	b	c	d	e					f	g			
1969	215	34	60	14	6	3	93	26	32	140	43	17	21	580
1970	230	33	72	14	9	8	4	96	24	30	170	50	13	650
1971	220	19	53	7	9	5	7	130	35	39	190	53	16	710
1972	240	20	67	12	14	7	9	130	26	39	160	47	13	710
1973	290	27	92	14	19	9	14	235	28	26	155	39	22	860

1) This refers to Africa less Rhodesia, and the Republic of South Africa

a : cereals
b : oilseeds, nuts and kernels
c : textile fibres
d : crude fertilizers and minerals
e : metal, ferrous ores and metal scraps
f : textile yarns and fabrics
g : non-ferrous metals

Source : UN : Year Book of International Trade Statistics 1974 (Volume 1).

reducing or eliminating cumbersome customs regulations, all the more important as many of the traders involved are illiterates ; (b) facilitating transfer of funds through payments and clearing arrangements which is possible only if trade is organized through official commercial and banking channels. The elimination of the fundamental disparities and discrepancies in the different economic regimes will imply a degree of harmonization, of commercial, monetary and general economic policies which is only possible within the framework of the economic integration of the countries involved. However even in this direction limited action can be undertaken granted the right political atmosphere and will.

The composition of Intra-African Trade (Table III)

The preponderant part of the commodities entering intra-African trade comprises agricultural products and food items. In the countries of Southern Africa however manufactured goods form about 40-50 % of intra-African trade. The main agricultural and food products are coffee, cotton, cocoa, groundnuts and timber ; live animals, meat and fish ; cereals, fruits and vegetables ; vegetable oils, salt. The main primary products entering African trade are petroleum, rubber, leather and skin, aluminium, cement, copper and phosphates. Africa supplies itself, to a substantial degree its requirements in foods; only symbolically in capital goods and intermediary goods. Ghanas' African trade reflected in a way the general trend in Africa, with imports preponderantly made up of agricultural products and food items until the early seventies when increasing imports of petroleum and fuel products changed the situation (See Table III). The main agricultural food products and raw materials, on the side of imports, are processed coffee, live animals, meat, cereals, fruits, vegetable oils, cotton, skins and leather. On the side of exports, Ghana sells mostly cocoa products, timber and timber products, cola nuts, vegetable oils, processed fruits, various processed food items and fish products. Of growing importance in Ghanas' exports to the rest of Africa are miscellaneous manufactured products such as travelling goods, textiles, ceramics, household goods, alcoholic beverages, shoes, etc.

Factors influencing the composition of intra-African trade

The generally low level of economic development explains, in part, not only the low level of intra-African trade, already discussed, but also its structure. Allied to this is the competitive structure¹ or the low degree of complementarity between the economies, especially of countries with similar geographical and climatic regimes.

1) Used in the present context competitiveness denotes a large degree of overlapping in the range of the commodities produced, and complementarity means substantial differences in the scope of production' For a discussion of these terms within the context of regional integration, see - Bela Belassa - *The Theory of Economic Integration*. (George Allen and Unwin Ltd, 1962), p. 29-34.

A rise in the general standard of living will lead to a greater consumption not only of the traditional food items which make up much of intra-African trade but also of manufactured goods and the so-called luxury agricultural products such as cocoa and coffee. With a greater rhythm of development African countries will provide growing markets for African raw materials such as copper, iron ore, aluminium, petroleum, timber, etc. Moreover the stage will be prepared for the development of industries for intermediate and capital goods, the demand for which is claiming an ever increasing share of the imports of most African countries.

The rapid growth in industrialization in certain African countries is another factor influencing the development and structure of inter-African trade. Although industrialization in most African countries is of the import substitution type aimed basically at serving local markets, the narrowness of these markets and the consequential under-capacity production in many factories has led to the development of trade in manufactured goods. This factor underlies much of the trade in manufactured goods in West Africa. This explains how Ghanaian textiles, travelling goods, alcoholic drinks, ceramics, aluminium household goods etc. have found their way into the markets of Ivory Coast, Upper Volta, Mali and Togoland. Export oriented production is however becoming increasingly important and accounts for the export of shoes and fish products from Morocco to Ghana, of aluminium products from the Cameroons to Nigeria, of textile products from Senegal to countries of the Franc zone etc. Thus progressive industrialization, to the extent that it is developed on the basis of a certain degree of complementarity will permit manufactured products to play an increasing role in intra-African trade ; it will not only increase the capacity to supply the needs of African countries for manufactures but will also open up new markets for African raw materials. However for complementary production to lead to increase in trade it should be accompanied by greater productivity and efficiency so as to make prices competitive at international level.

Some problems of Intra-African Trade

Other major factors influencing the development of intra-African trade are transportation and communication problems ; tariff barriers ; non tariff barriers, including customs administration ; problems of monetary nature, and other factors such as commercial habits and channels of trade. Improvement of transport and communications can be seen as a catalyst to intra-African trade more within a regional context than in a continental sense, although the recent experiment with the trans-saharian road has amply demonstrated the long-term possibilities of such trade. By reducing the cost of transportation, prohibitive in some cases, and accelerating the flow of goods, improvement in transportation cannot but promote trade. Allied to the transportation problem is that of inefficient distribution network. There is a need for a rational organization of distribution and commercialization especially for products already prominent in inter-

African trade like live animals, meat, fish products, etc... This deficiency limits the volume of trade as well as the sphere of distribution and penetration. An important factor in this regard is that in many African countries trade has been for a long time the monopoly of foreign multinational companies who find it difficult to adapt their methods to the exigencies of intra-African trade. Ghana's African trade is organized mostly by private Ghanaian enterprises or State owned organizations such as the Timber Marketing Board, rather than by the old established foreign trading firms.

Tariffs

The existence of high tariffs in most African countries for revenue as well as protective purposes is a major barrier to trade especially where this tendency has been reinforced by preferential régimes such as exist not only among certain African countries but also between African and non-African countries. Thus for example until the Lomé Convention Ghanaian products entering the UDEAC market not only have had to face protective and revenue duties but also had to compete with products from EEC member countries which enjoyed preferential duties in the UDEAC countries. The abolition of reciprocal tariff concessions under the Lomé Convention has removed the competitive advantage enjoyed by EEC products in such markets but the tariffs and revenue taxes still exist as barriers to trade. Until the ratification of the Treaty creating the ECOWAS in 1975 Ghana had no preferential tariff relations with any country in Africa ; the only serious move in this regard was the Ghana, - Guinea - Mali union, in 1960 a politically motivated attempt whose economic significance did not go further than some loans granted to Guinea and Mali by Ghana. Import duties represent a major part of governmental revenue for a number of African countries and any attempt to eliminate them either in a bilateral or multilateral context must be approached with extreme caution. With regard to non-tariff barriers the most prevalent in Africa are quantitative restrictions which are imposed for industrial protection and balance of payments reasons. Varying customs administration practices, such as licensing, valuation, rules of origin requirements made all the more complicated by the existence of numerous preferential arrangements also constitute a source of impediment to trade. Other barriers to trade range from internal taxes and health and sanitary regulation to state trading.

Monetary and payment problems

The payment problem in intra-African trade arises not from the existence of numerous monetary zones nor even from the inconvertibility of many of the currencies but basically from the general balance of payments difficulties and their resultant foreign exchange scarcities and strict exchange control régimes of most African countries. In a situation of healthy balance of payments intra-African payments could be settled through convertible currency resource of

these countries. This is one of the basic reasons for the numerous bilateral trade agreements which have come to characterise not only intra-African trade but also trade between many African countries and centrally planned economies. Currency inconvertibility and balance of payments problems should however not lead to a total absence of trade as European countries demonstrated after the second world war when currency inconvertibility led eventually to the creation of the European Payments Union to replace the bilateral payments agreements and the multilateral monetary compensation agreements which followed them. Since the early sixties discussions have been taking place in various international fora and especially the ECA on the necessity and possibilities of monetary co-operation in Africa, and the first concrete but cautious step, which will be examined later in this chapter, was taken in June 1975 with the creation of a regional payments clearing arrangement for West Africa.

INSTRUMENTS OF GHANA'S COMMERCIAL POLICY IN AFRICA

Until the attainment of independence Ghana's trade relations with the rest of Africa had played an insignificant role in the formulation of the overall commercial policies of the country. Much of the trade was limited to what has been referred to earlier as traditional or border trade. Since independence, Ghana, like many other African countries has not ceased to emphasize the necessity of promoting not only greater intra-African trade but also closer intra-African economic co-operation at all levels. The instruments of Ghana's trade policy with regard to the rest of Africa have been developed at three levels, national or domestic, bilateral and multilateral.

1. Domestic instruments

As far as purely domestic instruments are concerned it will not be easy to distinguish the essentially African aspects from the rest. For example measures designed to promote Ghana's exports to the other African countries, especially the neighbouring ones, are in effect coincidental with general export promotion measures, and these are of relatively recent date. The export bonus scheme, to illustrate this point, is meant to be of general application but in actual fact, it has had more effect in promoting the export of products from the country's nascent manufacturing industries to neighbouring African states. The organization of and participation in trade fairs has been another aspect of this trade promotional effort. The Timber Marketing Board has established timber depots in the northern border region of the country to serve partly as distribution centres for Ghana's sahelian neighbours. Special centres for the exhibition and sale of Ghanaian products have been established in some neighbouring countries, and in an attempt to regularize border trade shopping centres with banking facilities have been created at certain major border points such as Aflao on the Ghana-Togo southern border.

Institutionally no special domestic measures have been taken purposely to serve Ghana's commercial policies in Africa, but this situation is likely to change with the evolution of regional economic integration in West Africa.

The imperative of economic co-operation in Africa¹

Some of the factors discussed above such the lack of complementarity in production, the development of parallel and competitive industrial structures, the existence of numerous preferential systems and monetary zones and especially the narrowness of internal markets for industrial development do underline the need for a greater degree of economic co-operation.

The situation with regard to economic co-operation in Africa during the last two decades is to say the least a confused one. In the first instance, the attainment of independence saw, with some exceptions, the dismantling of some of the institutions of co-operation such as the West African Currency Board and the West African Cocoa Research Institute set up by the British in West Africa for administrative convenience. Even while this dismantling was going on the call for new forms of co-operation was gaining momentum. Forms of economic co-operation in Africa created during the last two decades range from loose continental bodies like the United Nations' ECA and its regional bodies, the OAU and its economic groupings ranging from the Conseil d'Entente, river basin groupings to customs unions and economic communities ; permanent joint commissions, bilateral trade and payments agreements, transnational companies such as the Air Afrique and commodity groupings such as the African Groundnut Producers Association, the African Timber Exporters Association, and the West African Rice Development Association (WARDA). Among the non-governmental organizations might be mentioned the Federation of West African Chambers of Commerce created in 1972 to promote intra-regional trade.

Ghana and economic co-operation in Africa

Ghana has, since her independence been consistently in the forefront of efforts in favour of economic co-operation in Africa. Her participation in institutions promoting co-operation ranges from continental wide institutions such as the ECA, OAU, the ADB and the Association of African Central Banks (AACB), to regional institutions

1) There is a growing literature on economic co-operation and integration in Africa among which the following can be singled out : "Economic Integration in Africa" - Peter Robson (George Allen and Unwin Ltd- 1968) ; African Integration and Disintegration - Edited by Arthur Hazelwood - OUP, 1967) ; "Problems and Prospects of Economic Integration in West Africa - N.G. Plessz (Mc Gill University Press 1968) ; L'Afrique commerce avec l'Afrique - B. Vinay (Presses Universitaires de France 1968) ; Anguile A.G. and David, T.E. L'Afrique sans frontières (Monaco, Société des Editions Paul Boru 1965) ; R.H. Green and A. Seidmann - "Unity or Poverty - The Economics of Pan-Africanism. (Penguin Books 1968).

such as the recently created ECOWAS and the Clearing Union of West African Central Banks and special bodies such as the African Timber Producer Association and the WARDA. On the other hand are the numerous bilateral agreements on economic co-operation to which Ghana is signatory.

Ghana's overall policy on economic co-operation has gone through circuitous evolution since independence (1957). At the time of independence the policy of the Nkrumah¹ regime was centered on the creation of a continental wide African common market as a cornerstone of a unified state of Africa and there was an open hostility to the idea of regional groupings which he considered as impediments to the creation of a wider African unity. This policy was not only in opposition to the views of those who advocated a gradualist approach to African unity but ignored the reality of the existence of regional institutions such as the East African Common Market which dated decades back, and similar groupings in Franco-phone Africa. A result of this policy was also that the development of relations with neighbouring countries was generally neglected. The development of economic co-operation with certain African countries on the basis of bilateral agreement which began in 1961 might be considered a departure from Nkrumah's earlier insistence on instant continental unity but it was also part of an overall policy change aimed at re-orienting Ghana's external trade and which saw the signing of similar agreements with ten centrally-planned-economy countries in the single year of 1961.

The failure of the idea of an African Common Market to take off, in face of apparent cold reception in African capitals and the stark realization of the immense problems involved, coupled with the reality of the existence of regional economic groupings in various parts of the continent and finally the creation in 1963 of the OAU which reflected a gradualist approach to African unity, forced a change in policy in the latter part of the Nkrumah regime implying a more ready acceptance of regional economic groupings. Since the change in government in 1966 the general policy has been to support every genuine effort at an overall African economic co-operation while concentrating on promoting and strengthening the economic relations with Ghana's West African neighbours both bilaterally and regionally.

Ghana and bilateral trade and payments agreements with African countries

There is a widespread use of bilateral trade agreements² by developing countries as they try to restructure their international trade relations on the attainment of independence. In Africa the use

1) Nkrumah's policies on African economic co-operation are best outlined in his - Africa Must Unite - Heinemann, London, 1963.

2) See chapter IX of this thesis.

of bilateral trade and payments agreements as instruments of commercial policy dates back only recently, however since 1955 countries have become partners to numerous such agreements, a large number of which have been concluded with other African countries. Apart from the basic factors mentioned above a number of justifications can be advanced for this development. Where no regular trade had existed between these countries, a bilateral trade agreement can be an instrument for inaugurating trading relations, setting out the principles and providing the framework for conducting trade between the partners. The conclusion of such agreements may also provide the occasion for the removal or amelioration of restrictions on trade and where payments and clearing agreements are incorporated they can enhance the volume of trade between the partners through the granting of mutual trade credits and especially by dispensing with direct payments through clearing systems. The history of Ghana's bilateral trade agreements with African countries can be divided into two broad periods, the period between 1961, when the first agreements were signed, and 1966 when Nkrumah was overthrown, and the decade following it up till the time of writing.

In 1961 Ghana concluded a number of bilateral trade and payments agreements of which five were with African countries namely U.A.R. Upper Volta, Guinea, Mali and Dahomey and another agreement was signed with Niger in 1963. A number of these agreements such as those with Guinea and Dahomey were motivated more by political than economic considerations but economic justification for others was not lacking ; the agreement with Upper Volta was motivated mostly by the need to rationalize the cattle trade with Ghana's northern neighbour. Most of these agreements contained most of the classical elements of bilateral trade agreements such as a period of duration, specified composition of trade, a clearing system of payment often incorporating the use of swing credit, etc... It is a reflection of the irregularity in the low level of intra-African trade that all the agreements with African states were for a year's duration with a provision for automatic renewal unless desired otherwise by a partner. An examination of the composition of trade shows that Ghana engaged herself to import mostly food products such as livestock, fish, grains, edible oils and oilseeds ; handicrafts, and raw materials such as hides and skins, cotton. On Ghana's export list were processed agricultural products, miscellaneous manufactured products such matches, salt, soap, textiles, aluminium sheets and utensils, alcoholic beverages, perfumery, timber and timber products, etc... It was apparent that Ghana saw in these agreements a means of creating an external market for her infant industries. The swing credits¹ differed from country to country and in almost all cases the excess over the credits was to be settled either in goods or convertible currency within a specified period. The agreements with Guinea, Mali and Upper Volta had the added provision for duty free entry for " any local product or any locally manufactured articles

1) The agreement with Niger was open-ended in that no quota values were attached.

originating from either party ". There was to be no re-export of goods imported without the prior written approval of the party concerned and contracts were to be based on world prices.

It is not easy to assess the significance of these bilateral agreements. The agreements with Dahomey and Guinea were for most of the time practically inoperative due to lack of interest, but the case was different with some of Ghana's other African partners. Table II of Chapter IX on the flow of Ghana's bilateral trade shows a remarkable growth in exchange between Ghana and the Upper Volta over the period 1960 to 1964. It is however likely that part of this growth only reflected a better statistical coverage. The development of Ghana's exports to the UAR after 1961 was quite remarkable especially when they were practically non-existent previously, and trade with Mali developed into a substantial credit balance in favour of Mali, a factor which brought into relief one of the major drawbacks of bilateral trade agreements, namely the blocking of the mechanism of payments due mostly to the necessity of balancing trade and bilateral payments positions. The agreement with Mali was covered by a swing credit of one million dollars ; as Mali exported more to Ghana than she imported from her, by June 1963, a credit of 1.7 million dollars had developed in favour of Mali and after a serious importation effort this had been reduced to 1.14 million by the end of the year, still above limit allowed by the credit facility. The situation was helped¹ only through the intermediary of the Economic Commission of Europe which arranged for a compensation operation between Yugoslavia, Czechoslovakia, Ghana and Mali, as the first two countries were in debit with Ghana and in credit with Mali. However by the middle of 1965 Ghana had again reached the credit limit. The basic cause for this situation is the lack of complementarity in the trade between these two states, for while Ghana depends heavily on Mali for livestock and meat Ghana's export items did not often fit within the import programme of the latter and the few which fitted were not of the required quantity.

As part of the general review of bilateral trade and payments agreement which followed the fall of the Nkrumah's régime, the agreement with Uper Volta, in addition to those with Dahomey and Guinea became inoperative by 1967. In January 1968 the agreement with Dahomey was formally terminated and replaced by a trade agreement providing for m.f.n. treatment and for the settlement of payments in convertible currencies. The bilateral payments agreement with Mali was in turn terminated in July 1969. The new agreement with Dahomey reflected the new orientation in Ghana's policy. The difficulties² involved in the operation of the bilateral payments agreements has led to a decision to change to settlements in convertible currencies in future trade agreements. In the light of this decision existing bilateral payments agreements were either terminat-

1) "L'Afrique commerce avec l'Afrique", op. cit. p. 161.

2) See the following chapter for a more detailed study of these difficulties.

ed or not renewed when they came up for renewal. With regard to bilateral agreements with African countries it must be pointed out that with the signature in 1967 of the draft Agreement for the creation of a West African Economic Community a major emphasis in Ghana's external commercial policy was to develop intra African trade within a multilateral framework as a long term objective and future bilateral agreements were to be considered rather as provisional and contributory measures. Thus a bilateral payments agreement signed with the Upper Volta in December 1970 and which came into force in May 1971 was hailed, as events were later to prove right, as a fore-runner of a possible all African payment system¹. Under the clearing system incorporated in the agreement, the Bank of Ghana opened an account on behalf of the Government, with the Central Bank of West African States, in Ouagadougou, into which all private and official payments due to Ghanaians from Upper Volta were credited. Similarly an account was opened at the Bank of Ghana, by its Voltaian counterpart into which all payments due to Upper Voltaians were to be paid. At periodic intervals there was a mutual clearing of accounts with the outstanding balance being settled in agreed convertible currency. No further bilateral payments agreements were signed with African countries until the creation of the West Africa clearing arrangement in 1975. However bilateral agreements have continued to be signed, setting out in general terms the framework for the development of Ghana's trade with African countries². In West Africa these agreements have come to be incorporated in general co-operation agreements supervised by Joint Permanent Commissions.

5. Joint Permanent Commissions

Bilateral co-operation agreements do not represent a feature exclusive to intra-African relations; what is noticeable has however, been the tendency during the last decade to institutionalize bilateral arrangements by the establishment of joint permanent commissions, serviced by high officials from both partners who meet periodically to discuss the implementation of the various agreements falling under the general agreement. This can be considered a necessary rationalization of the situation created by the signature of numerous agreements as post independent African countries search to establish frameworks for co-operation with some form of unity as an ultimate objective. Thus it can be advanced that some of these bilateral agreements especially in the economic field are provisional instruments

1) The Ghana - Upper Volta clearing arrangement was based on a model proposed by the Association of African Central Banks and which was to be used in the creation of the West African clearing system discussed later in this chapter. The proposal of the AACB was in turn part of a number of proposals advocated by Professor Triffin in a report to the United Nations Economic Commission for Africa.

See R. Triffin, Report on the Possibilities of Establishing a Clearing and Payments Union in Africa, Annex VI to the Report of the Expert Group on an African Payments Union (E/CN.14/262).

2) Examples of such simple agreements were those signed with Algeria and Swaziland.

which may eventually either give way to or supplement multilateral regional or continental wide instruments of co-operation.

At the time of writing, Ghana had established joint permanent commissions with five West African countries¹ namely Ivory Coast, Upper Volta, Niger, Mali, Togoland and one with Sierra Leone has been proposed. The general mandate of these commissions may be summed up as follow " determine the orientation of the relations between the two countries and resolve all problems arising from the implementation of all agreements existing between them "². As intra-African relations tend to be regional in concentration and orientation most of the joint permanent commissions tend to be established between countries of the same region. Although the fields they cover tend to be similar, ranging from economic, political, scientific, legal, social and cultural to health, transport and communications and energy policies, the contents of the various agreements and the particular issues surrounding them differ from country to country. The first series of agreements were signed with Ivory Coast at the end of 1970 at the end of a long study sponsored partly by the ECA and the ADB, aimed at studying the possibilities of Ghana's association with the Conseil d'Entente. Particular problems which were covered by the agreements with Ghana's immediate neighbours, include smuggling, border demarcation and the protection of migrant workers.

The practical significance of these commissions is that they established a form of framework for discussing problems before they flared up into open conflict, and for implementing programmes of co-operation. Concrete example of such programme of co-operation are the sharing of power from Ghana's Akosombo dam with Togoland and Dahomey, the construction of the coastal road between Ghana and Ivory Coast, improvement of the transportation network between Ghana and Upper Volta, and the planned unification of the electricity grids of Ghana and Ivory Coast. The most outstanding outcome of bilateral and multilateral economic co-operation up till the time of writing was the agreement in 1975 between the governments of Ghana, Togo and the Ivory Coast to establish a

1) The schedule of date of the signing of the agreements creating the JPCs can be established as follows :

Ghana - Ivory Coast	— September 1970
Ghana - Upper Volta	— August 1971
Ghana - Niger	— End October 1971
Ghana - Togoland	— 30th March 1973
Ghana - Mali	— 6th December 1973

Previously a joint commission has been set up in May 1968 to supervise the implementation of the trade agreement signed between Ghana and Dahomey. This was replaced in 1975 by a JPC.

2) Extract from the official communique issued on the occasion of the signing of a convention establishing a Joint Permanent Commission on co-operation between Ghana and Niger - in October 1971.

cement project¹ based on limestone deposits in Togo, to produce clinker for cement factories in the participating countries. With particular reference to commercial relations the most substantial result was probably the clearing payment arrangement with Upper Volta ; and yet another concrete result accruing to Ghana has been the establishment of shopping centres in Upper Volta and Mali and of a bank in Togoland. With the disaffection for bilateral trade and payments agreements noted above, the broad agreements covered by the joint permanent commission can have only limited effectiveness as instruments of commercial policy and with the creation of multi-lateral institutions such the Economic Community of West African States and the West African clearing system, such bilateral instruments can at best play a supplementary role, in the future.

MULTILATERAL INSTRUMENTS OF GHANA'S AFRICAN COMMERCIAL RELATIONS

Until 1975 multilateral instruments or institutions in Africa for the formulation and implementation of Ghana's commercial policies were practically non-existent except the ECA and the economic organs of the OAU which offered frameworks for discussing problems, formulating policy guidelines, and analysing issues involved in the promotion of intra-African trade and general economic co-operation. Since its establishment, the promotion of regional economic integration has been one of the main preoccupations of the ECA and numerous studies have been prepared by the secretariat on the subject. However after years of discussions studies and a number of false starts a treaty was signed on May 27th 1975 by 16 West African countries, aimed at creating an Economic Community of West African States (ECOWAS)². This was followed in June by the setting up of a clearing payments arrangement for the member countries of the ECOWAS. The rest of this chapter will be devoted to an examination of these two newly created multilateral instruments of co-operation.

ECOWAS

The Treaty of Lagos creating the ECOWAS aims at the gradual elimination of customs and similar duties between the member states ; abolition of other restrictions on trade among member states ; the establishment of a common customs tariff and a common commercial policy. It also aims at the abolition of obstacles to the free movement of people, services, and capital ; harmonization of agri-

1) The projet is being financially supported by the IBRD, the ADB and various other international financial institutions. The West African Cement Company (Société multinationale des Ciments de l'Afrique de l'Ouest - CIMA O) might constitute a model for similar future projects).

2) The signatory members are Gambia, Guinea, Ghana, Dahomey, Ivory Coast, Niger, Guinea-Bissau, Mali, Nigeria, Liberia, Sierra Leone, Senegal, Togo, Mauritania, Upper Volta. Cape Verde.

cultural policies and the promotion of common projects in marketing research and agro-industrial enterprises ; joint development of transport, communication, energy and other infrastructural facilities ; harmonization of economic and industrial policies and elimination of disparities in levels of development ; harmonization of monetary policies ; and the establishment of a fund for co-operation, compensation and development.

Theoretical background

The theoretical arguments against and in favour of an ambitious project of regional economic integration of the type envisaged in the Treaty of Lagos are not lacking. The broad outline of the conventional theory¹ is that a customs union will be beneficial if on balance it is trade creating and it will be harmful if on balance it is trade diverting. The removal of tariff on intra-union trade will tend to increase trade between the countries forming the union. Whether or not the union is beneficial will depend on whether the intra-union trade is on balance the result of trade creation or of trade diversion. If union causes a member to replace its own high-cost production of particular commodities with imports from other members of the union, which have lower cost, this is trade creating. This trade creation is likely when there is union between countries which produce much the same range of products but differ in their comparative advantage for the various products. Before union, such countries are actually competitive but potentially complementary. After union, competition will lead to a pattern of specialization in which each country produces and supplies to the other members of the union the products in which it has a comparative advantage. The high-cost industries in each country will tend to be displaced by their low-cost competitors in other members of the union. If on the other hand, the effect of union is to cause members to switch their purchases from low-cost external source to high-cost sources within the union there is trade diversion. Union will not have been beneficial because it will have caused a shift of resources into less efficient uses. In other words, the gains from union according to static customs union theory arise essentially from the effect of union in bringing about a more efficient utilization of productive resources. The losses from union arise from any effect it has in encouraging a less efficient utilization of resources. One major condition for obtaining trade creation has been mentioned above, two others are that it will be predominant in unions between countries where a small proportion

1) There is a wide and growing literature on the subject of regional economic integration. For a statement of the conventional theory, see the following basic works :

J. Viner : *The Customs Union Issue*, Carnegie Endowment for International Peace, New York, 1950 ; J.E. Meade, *The Theory of International Economic Policy*, Volume II : Trade and Welfare, Oxford University Press, London, 1955 ; J.E. Meade, *The Theory of Customs Unions*, North Holland Publishing Company, Amsterdam 1965.

See also R.G. Lipsey, *The Theory of Customs Unions : A General Survey*, *The Economic Journal*, September 1960 ; For a general discussion, see B. Balassa, *The Theory of Economic Integration*.

of total expenditure is on external trade ; and where a high proportion of that external trade takes place between the countries which are to form the union.

Assessed on the basis of conventional theory and the criteria discussed above a common market groupings the 16 states of West African can hardly be considered justifiable or relevant. Although some of the countries like Ghana, Ivory Coast, Guinea, Sierra Leone and Nigeria may be competitive in the sense that they produce the same range of primary products, the degree of complementarity of their existing economic structure is very low. The removal of barriers between them would not have any great redistribution effect on the pattern of production within the union, replacing high-cost domestic production by lower-cost supplies from other members of the union. An important qualification to this assertion might be in the sector of agricultural food production where natural factors such as differences in climatic and vegetational conditions might lead to the displacement of high cost by low cost producers¹. This however presupposed the presence of well organized distribution and marketing systems as well as some common approach to pricing policies. The low level of industrialization rules out major adjustment of this kind in the industrial sector. In addition, external trade is not small in relation to domestic trade. On the contrary, exports and imports are both large in relation to the national income in the monetary sector of most of these countries. Moreover only a small proportion of the external trade of the countries of this region is with other countries of the region. The increasing sale of Nigerian oil to the countries of this region is changing the situation but the percentage of intra-West African trade to total external trade ranges between 0.3 for Nigeria to 23.2 for Upper Volta². (See Table IV for a general view of the evolution of intra West-African trade).

On the basis of conventional static theory the Treaty of Lagos might be considered irrelevant ; in reality it is the low level of development and the low level of intra-African trade which makes the question of regional integration a fundamental one. Before discussing integration among developing economies as a growth factor one should underscore another area of potential benefit in the agricultural field. This lies in co-operation in production and pricing policies in the sector of primary exports. This co-ordination is already taking place with regard to cocoa and is possible with other products such as groundnuts, coffee, vegetable oils, cotton, timber and timber products.

Among developing countries regional economic integration can only be justified as a dynamic factor in economic growth, creating

1) This is possible, for example, in the production of cereals and livestock where production in the savannah grassland regions might be achieved at a lower cost than in the forest regions.

2) Based on 1971 import trade figures. (See UN document E/CN.14/SEIB/8).

TABLE IV

WEST AFRICAN SUBREGION : DIRECTION OF SUBREGIONAL EXPORTS (1972-1975 AVERAGE) (000'US \$)

Exports to	Benin	Gambia	Guinea Bissau	Ghana	Rep. Guinea	Ivory Coast	Liberia	Mali	Mauritania	Niger	Sierra Leone	Nigeria	Senegal	Togo	Upper Volta	West Africa	Share of exports to subregion in total exports
Exports from																	
Benin Rep. ^{3,4}	—	—	—	—	—	442	—	12	—	1207	—	3395	570	855	35	6851	16.3 %
Gambia	—	—	—	—	—	260	—	—	—	—	152	44	254	—	—	710	2.1 %
Guinea Bissau	—	5	—	—	2	—	—	—	—	—	—	—	ng	—	—	7	0.08 %
Ghana	45	200	—	—	—	—	975	122	2 695	197	232	3 560	47	1920	345	9915	1.5 %
Rep. Guinea	—	—	7	7	—	—	—	50	—	—	67	2	20	—	—	335	0.4 %
Ivory Coast ^{3,4}	4425	50	—	4175	125	—	2325	27 325	525	7150	425	2625	18 300	2150	21 925	91575	9.6 %
Liberia ²	50	—	—	825	525	425	—	375	1 300	25	250	175	50	—	—	4000	1.1 %
Mali ³	1	5	—	1301	273	8 459	705	—	95	296	14	91	4 627	40	583	16490	33.6 %
Mauritania ³	—	—	—	—	—	102	2	—	—	—	—	—	272	—	—	376	0.2 %
Niger ^{3,4}	1087	—	—	630	—	830	—	802	55	—	—	11 432	60	82	467	15445	25.3 %
Sierra Leone ²	—	710	—	50	310	137	715	75	—	—	—	257	65	—	—	2319	1.7 %
Nigeria	1000	—	—	35 750	—	30 000	250	—	—	4250	12 000	—	16 000	500	—	99750	1.7 %
Senegal ³	3012	1567	87	317	857	14 465	437	6987	13 870	940	1 272	705	—	850	512	45878	15.9 %
Togo ⁴	620	12	94	405	2	354	22	1 181	3	260	16	416	100	—	270	3755	3.5 %
Upper Volta ^{3,4}	24	—	—	1 706	1	10 040	—	975	2	237	—	3	29	435	—	13452	46.7 %
Total	10264	2549	188	45868	2095	66102	5235	37904	18545	14562	14428	21755	40394	6832	24137	310858	3.6 %

Source : I.M.F. *Direction of Trade 1970-1976*.

1 Excluding the Cape Verde Islands for which no data were available. All the countries making up this sub-region, including the Cape Verde Islands are members of the Economic Community of West African States.

2 Member countries of the Mano River Customs Union

3 Member countries of the West African Economic Community

4 Member countries of the Conseil d'Entente.

TABLE V

AFRICA

Population (mid-1975), GNP at Market Price (1975), GNP Per Capita (1975),
and Average Annual Growth Rates (1960-75 and 1970-75)

GNP at market prices rounded to US \$ tens of millions. GNP per capita rounded to nearest US \$ 10.

No.	Country	Population (000)	GNP at market prices		Growth rates (%)			
			Amount (US \$ millions)	Per capita (US\$)	Population		GNP per capita (real)	
					1960-75	1970-75	1960-75	1970-75
1	Nigeria	75,023	25,600	340	2.5	2.5	3.4	5.3
2	Egypt, Arab Republic of	37,230	9,540	260	2.5	2.2	1.5	1.3
3	Ethiopia	27,950	2,730	100	2.3	2.6	2.0	0.4
4	South Africa	25,470	32,270	1,270	3.1	2.6	2.3	1.7
5	Zaire	24,721	3,450	140	2.7	2.7	1.6	1.5
6	Morocco	16,680	7,860	470	2.4	2.4	1.9	3.0
7	Algeria	15,747	13,680	870	3.2	3.2	1.8	4.3
8	Sudan ¹	15,550	4,140	270	2.2	2.1	0.1	3.8
9	Tanzania ²	14,738	2,440	170	2.9	2.7	3.0	2.9
10	Kenya	13,350	2,970	220	3.2	3.5	3.2	2.4
11	Uganda	11,556	2,680	230	2.9	3.3	1.0	-4.5
12	Ghana	9,870	5,860	590	2.6	2.7	-0.2	-0.3
13	Mozambique ¹	9,240	1,640	180	2.1	2.4	2.0	-2.6
14	Madagascar	8,833	1,720	200	2.7	3.1	0.1	-2.2
15	Cameroon	7,435	2,050	280	2.0	1.9	3.0	0.5
16	Ivory Coast	6,700	3,630	540	3.7	4.2	3.5	1.9
17	Rhodesia	6,310	3,460	550	3.4	3.5	2.4	2.8
18	Upper Volta	6,032	640	110	2.1	2.3	0.7	1.1
19	Mali	5,697	530	90	2.2	2.5	0.9	-0.1
20	Tunisia ³	5,594	4,090	730	2.2	2.3	4.1	6.9
21	Guinea ¹	5,540	750	130	2.8	2.8	0.2	1.3
22	Angola ¹	5,470	2,030	370	1.2	0.1	3.6	3.2
23	Malawi	5,044	660	130	2.5	2.3	4.1	7.0
24	Senegal	5,000	1,800	360	2.6	2.7	-0.7	-1.1
25	Zambia	4,920	2,090	420	2.9	2.9	2.0	0.9
26	Niger	4,592	590	130	2.7	2.7	-1.3	-2.8
27	Rwanda	4,137	430	100	3.2	2.3	0.5	0.2
28	Chad	4,035	460	120	1.9	2.1	-1.1	-2.0
29	Burundi	3,732	410	110	2.0	2.1	2.7	-1.1
30	Somalia ¹	3,180	340	110	2.4	2.4	-0.3	-0.2
31	Benin	3,110	390	130	2.7	2.7	-0.3	-1.1
32	Sierra Leone ⁴	2,982	610	200	2.2	2.5	1.5	0.5
33	Libya	2,442	13,510	5,530	4.1	4.2	10.5	3.9
34	Togo	2,220	560	250	2.7	2.6	4.4	2.0
35	Central African Empire	1,787	390	220	2.2	2.2	0.4	-0.7
36	Liberia	1,549	640	410	3.3	3.3	1.8	0.9
37	Congo, People's Republic of the	1,329	670	510	2.4	2.2	2.9	4.3
38	Mauritania	1,322	420	320	2.2	2.7	3.8	2.6
39	Lesotho ¹	1,217	190	160	2.2	2.2	4.6	7.3
40	Mauritius	883	540	610	1.9	1.1	0.8	5.8
41	Namibia ¹	880	860	980	3.1	2.8	1.6	3.7
42	Botswana ¹	666	230	350	1.9	1.9	6.0	8.4
43	Gabon	536	1,360	2,540	1.2	1.7	5.0	7.8
44	Guinea-Bissau ^{1,5}	530	70	120	-0.3	2.1	n.a.	7.1
45	Gambia, The	519	90	180	2.2	2.4	3.9	7.3
46	Reunion ¹	500	960	1,920	2.6	2.1	3.9	3.0
47	Swaziland ¹	494	220	440	3.0	3.2	6.8	7.9
48	Comoros	333	70	200	3.3	3.4	2.1	-1.0
49	Equatorial Guinea ^{1,6}	320	100	320	1.8	1.4	-0.9	-6.0
50	Cape Verde ¹	290	80	260	2.8	1.7	1.7	-4.0
51	Spanish Sahara (former)	117	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
52	Djibouti ¹	105	200	1,940	1.9	2.0	10.4	8.6
53	Sao Tome and Principe ¹	80	40	460	2.0	2.8	0.7	-0.5
54	Seychelles ¹	57	30	580	2.1	1.9	2.6	2.6

Source : World Bank Atlas 1977.

1 Estimates of GNP per capita and its growth rate are tentative.

2 Mainland Tanzania.

3 GNP per capita growth rate relates to 1961-75

4 GNP per capita growth rate relates to 1964-75.

5 GNP per capita growth rate relates to 1964-75.

6 GNP per capita growth rate relates to 1962-75.

n.a. - Not available.

larger markets for existing enterprises and primarily giving stimulus to the creation of new productive capacity particularly in manufacturing industry where it can benefit from the economies of scale. In the process there might be trade diversion from low-cost extra-union to higher-cost intra-union sources, something condemned under conventional theory. It has been argued that among developing countries a case for industrial development within a customs union can only be interpreted as a case for industrial protection. On the other hand industrial protection in developing countries may be defended on the basis of the traditional infant-industry argument; but what is fundamental for the examination of the case for a customs union among developing countries is the fact that most of these countries consider some degree of industrialization as an economic¹ and social imperative, helping in diversifying the economy away from undue dependence on the production and export of primary products and the attendant instability it engenders, and for crating employment. For this they are prepared to pay the high cost of protection for import substitution industries, and the argument is that these industries will operate more efficiently and at lower cost if they are able to serve a wider common market than if they are restricted to the market of a single country. While the importance of size for economic efficiency should not be exaggerated, it must be pointed out that an outstanding feature of the African economic scene is the large number of countries with an extremely small size². As table V shows, only 23 countries out of 54 in Africa (excluding South Africa) had populations of 5 million and above on the basis of 1975 estimates, and per capital income varied from 90 US \$ for Mali to 5530 US \$ for Lybia. An integrated regional market of the size of West Africa could be a strong incentive for foreign investment which will be attracted behind the external tariff wall (tariff factories) of the community. A large regional market for industrialization will not only confer economies of scale but will

1) For theoretical discussion of industrial protection and integration among developing countries, see H.G. Johnson "An Economic Theory of Protectionism" - *Journal of Political Economy* June 1965 ; C.A. Cooper and B.F. Massel "Toward a General Theory of Customs Unions for Developing Countries" - *Journal of Political Economy*, - October 1965 ; See also B. Balassa - "Economic Development and Integration - CEMLA, Mexico 1965 ; and R.F. Mikesell - "The Theory of Common Markets as Applied to Regional Arrangements Among Developing Countries" in *International Trade Theory in a Developing World*, edited by Roy Harrod and D.C. Hague, Macmillan - London 1963 ; For a representative example of the attempt to analyse integration in less developed countries against the back ground of dynamic protectionist assertions, see H. Kitamura "Economic Theory and the Economic Integration of Underdeveloped Regions" in M.S. Wionczek (editor), *Latin American Economic Integration*, London, Praeger 1966.

2) Various criteria such as population and geographical area have been proposed by various economists as the basis for measuring market size of an economy. The most widely accepted criterion appears, however to be the gross national product, with some qualifications, such as differences in taste and transportation costs within an area. For a given GNP, the greater the costs of transportation and the more diversified the tastes of the population, the smaller the effective size of the market. On the basis of the GNP definition, it can be stated that for a given per capita income level, population can be taken as an indicator of market size (see Table IV).

avoid the waste and inefficiency arising out of fragmentation of markets and the accompanying duplication very much evident in Latin America and already beginning to appear in Africa. For a number of years the ECA has been studying the feasibility of regional industries, that is, industries which for reasons of optimal size should be established to serve entire regional or sub-regional markets, such industries such as iron and steel, paper and pulp ; cement , fertilizers, metallurgical plants, automobile industries. Such regional industrial projects may either be owned by one nation or jointly by several nations in a form of co-production¹ effort such as the CIMA0 ; either by a private, national or transnational enterprise.

While a case can thus be made for regional groupings of the kind envisaged by the creation of ECOWAS, the obstacles in the way of such integration attempt are numerous and formidable, despite the fact that the generally low level of industrial development in this region and the absence of too many vested interests in existing industries could be considered as factors which might facilitate integration. The obstacles, if one bases one's self on integration experience in other developing regions range from relatively simple issues such as the harmonization of customs administration and procedures, to more fundamental problems such as compensations for the loss of revenue, the allocation of industries, harmonization of development plans, and supra-national planning. Differences in political, economic and social orientation of the various governments are basic to most of these problems.

The main difficulty about customs unions arises from the tendency of the market mechanism to work in a disequalizing manner, especially where, as in West Africa there are considerable differences in the level of development among the member countries. There are on the one hand countries like Nigeria, Ghana, Ivory Coast and Senegal which have reached a relatively high level of infra-structural and industrial development, and the other hand, others like Upper Volta, Gambia, Guinea Bissau and Mauritania, where industrial development is at present very rudimentary, to say the least. Probably the most outstanding example of a potential disequalizing element in the ECOWAS is the case of Nigeria, which in population², and economic size, bolstered by its high petroleum reserves, currently dominates the other countries of the region. In such circumstances, and where a " laissez-faire " customs union is in operation in which markets forces are allowed freely to operate

2) See H. Bourginant "Les marchés communs des pays en voie de développement" (Librairie Droz - Geneva 1968) Chapter VIII - for a discussion of the theoretical and other aspects of regional industrial "co-operation".

2) With a population (1975 estimates) of 75 million out of a total of 130.8 million for the whole of the ECOWAS, (57 per cent), Nigeria also accounts for about 61 % of the GNP of the Community of 42 million US \$ although the per capital income is a modest 340 US \$ (See Table V for the source of these estimates)

within a tariff-free market area, the benefits from integration are likely to be unequally distributed between the associated states ; some countries might even be net losers and in such situations they might question their continued membership of the union. This potential loss, absolutely or relatively, arises from two sources. Firstly the high protective external common tariff, might, by reducing imports, lead to a heavy loss of revenue from import duties on which many of these countries depend, while the industrial protection which the high tariff provide might only work in the interest of the more relatively developed countries at the expense of the other. Even more important is the fact that in such a *laissez-faire* union, cumulative causation¹, which is an important feature of the development process, associated with the disqualifying movement of capital and labour, will reinforce the tendency for polarisation of development in some members of the union. Development will tend to take place mainly in the countries which for one reason or another, are the most attractive for investments. In the context of the ECOWAS such countries could in the short run be those already named above.

The necessity for an equitable distribution of the cost and benefits arising from regional economic integration, is the main reason why all customs unions among developing countries² are "regulated unions". In a regulated economic union measures are introduced to correct the inequalities which develop within a "*laissez-faire*" union. Where such measures were neglected, as was often the case with customs unions created in the colonial era for purely administrative reasons, strains have later developed which have necessitated a restructuring of the union and have been an impediment to further development. This has been the case with the East African Economic Community. The major difficulty with a "regulated" integration is that the process of regulation requires even further surrender by the associated states of their autonomy in the field of economic policy. Of the regulatory measures often found in many regional economic integration arrangements involving developing countries, the most common is the payment of fiscal compensation for the inequitable operation of the market. Other measures might even involve to some extent the erection of barriers to intra-market trade in order to protect the industries of the weaker members against competition from those of the stronger ; the offer of differential inducements such as fiscal exemptions to industry which other members of the union agree to forego ; programmes aimed at making the less developed member countries more attractive for investment ; and more comprehensively, a regional development policy. Regional development policies involving planning at a supranational level and

1) See G. Myrdal. "Economic Theory and Underdeveloped Regions, Duckworth, London, 1957, chapters III and V.

2) It must however be pointed out that even in the European Communities regulatory measures play an important role. Activities under the regional policy, especially with regard to the European Regional Development Fund (ERDF), as well as those of the European Investment Bank are aimed at the less developed regions of the EEC.

therefore the surrender of autonomy have so far proved difficult to work out and be accepted. At its lowest level supranational planning could take the form of confrontation of national plans in the expectation that inconsistencies will be revealed and action taken to eliminate them, but in practice, often nothing happens, for a plan once published and publicized becomes almost impossible to change. At a higher level, might be a reconciliation of plans before they are completed. Such a reconciliation would in effect be an agreement on the allocation of particular industries for which a free access to a market wider than that of any one of the countries is necessary. The allocation of industries even within a federal¹ structure has always been fraught with immense difficulties. The establishment of lists of industries to be allocated and the allocation itself are bound to involve interminable negotiations.

The Treaty of Lagos contains a number of provisions which can be considered as regulatory in the sense defined above. It provides for compensation for states whose import duties are reduced through trade liberalization, and contains a clause permitting safeguard measures in a country where that process has provoked serious economic disturbance. A Fund for Co-operation Compensation and Development, will be used to finance projects in member states, assist countries which have suffered losses as a result of the location of community enterprises or because of trade liberalization, guarantee foreign investments which promote harmonization of industrial policies, facilitate the mobilization of internal and external financial resources for individual countries and the community as a whole, and promote development projects in the less developed states. The promotion of development projects in the less developed states might, in the long run, turn out to be the most important function of the Fund for, however generous compensatory payments might be, no member state will prefer them to investment projects which will offer employment avenue to its people and contribute to the general development of the country.

To assess the future prospects of the ECOWAS will be a difficult exercise. In the light of some of the issues discussed above and the problems which have plagued similar integration efforts in Africa the prospects do not appear too bright. The generally low level of economic development of the region, the wide disparities in the level of development among the countries, differences in economic and trade regimes, the need to accommodate existing regional and sub-regional organizations all have in them seeds of possible conflict. The ECOWAS has however the advantage that being a late starter it can draw on the experience of similar institutions in Africa and elsewhere and avoid some of their pitfalls. It has the advantage, which

1) A case in point is Nigeria where great difficulties have been experienced in harmonizing regional plans in an overall national plan. For an analysis of these problems, See O.E. Obayan "The Machinery of Planning in the Federation of Nigeria" - Nigerian Journal of Economic Studies 1962.

can also be a disadvantage that embracing a large number of countries it has a greater room for internal adjustments, compromises, checks and balances which can help to avoid some of the rigidities which are characteristic of less numerous groupings. On the other hand it might be argued that agreements are more easily hammered out in small groupings. It might be argued as a factor in favour of the ECOWAS that the present low level of industrialization and therefore of vested interest as far as industrial plants are concerned might make the task of the harmonization of industrial development, a little easier. Another significant favourable element is that the Lomé Convention has removed one serious divisive factor in the region with regard to its relationship with the EEC.

One must have no illusions as to the problems in the way of realizing an economic integration of West Africa. There is everything to be said in favour of a cautious and gradual approach although gradualism should not be such as to allow the further entrenchment of narrow national interests especially where industrial development is concerned. In the initial stages in the development of the ECOWAS it might be advisable to avoid too much institutionalization and concentrate attention on issues which although practical and innocuous could lay the foundation for the further development of the integration process. Among such issues might be the harmonization of customs practices and regulations, the rationalization of transit trade and, on a higher level, the harmonization of tariffs and access to markets and the elimination of technical barriers to trade. On the more practical level regional infrastructural development should hold the pride of place. The above examination of the theoretical and some practical implications of the ECOWAS is certainly not intended to cover the whole range of issues and problems involved in this ambitious effort at regional economic integration, but only some of the broad basic issues. Among the other fundamental problems is the need for some political cohesion which at a practical level could be reflected in a mutual demonstration of political goodwill. This should mean the readiness not only to surrender the modicum of national sovereignty necessary for the functioning of the institutions of the community, but also to accept to balance the potential long term benefits of integration against the short term advantages or disadvantages on which the general public often bases its judgement.

Ghana and the ECOWAS

The diversification and development of the market for her exports has been a cardinal objective in Ghana's external commercial policy since independence. The conclusion of bilateral trade and payments agreements, her active participation in international trade and development organizations, and her external trade promotional efforts in the technical sense of the term have all been geared towards this objective. In signing the Lagos treaty, Ghana, however, engages herself to participate actively in the creation of a regional market area "in the sense defined by Mikesell, that is, a contiguous

area which includes the territories of two or more countries, for which substantial economic advantages could be realized by the elimination of barriers to the movement of goods and services and production factors within the area "1. The Treaty of Lagos, as has already been discussed above, goes beyond this and aims at a complete economic integration of the region. Ghana's² trade within the region is still quite small in relation to her total external trade, although it is growing fast with certain individual countries such as Nigeria. The liberalization of trade and the elimination of technical barriers to trade will not have any major immediate effect on Ghana's trade with the rest of the region. It will certainly lead to a rationalization of her trade with some of the neighbouring countries ; with regular trade replacing the smuggling, which is so rampant, and the so-called border trade. As Ghana is relatively more industrialized than some of the countries in the region, there might be in the short run a spurt in the exports of Ghanaian manufactures where transport facilities are available in return for imports of food products and processed raw materials. However as import substitution industrialization gets under way in some of the countries it might even be necessary to regulate Ghana's exports of manufactures to them. As far as customs revenue is concerned, the loss to Ghana in the short run will be insignificant due to the low level of trade and to the fact the elimination of tariffs will be a gradual process spread over a number of years. The real advantages which may accrue to Ghana are bound to be of a long-term nature. As the economic development of the region accelerates and incomes grow it will offer a large market for Ghana's industries. Intra regional competition under the Community's rules of fair-play, and regional industrial specialization, regional participation in and financing of industrial projects will be major contributory factors to the industrial development of member states. On the other hand it may be expected that being one of the relatively developed countries in the region Ghana's contribution to the compensation co-operation and development fund will be proportionately high ; however this contribution can by no means be considered as being in full reciprocity to the advantages which will accrue to Ghana from a growth in her general level of industrialization.

REGIONAL PAYMENTS CLEARING ARRANGEMENT

In June 1975 the governors of the West African Sub-Regional

1) R.F. Mikesell "Liberalization of Inter-Latin American Trade" - Washington, Pan American Union, p. 22.

2) In 1972 Ghana's imports from the rest of the ECOWAS countries formed 5.4 per cent of her total imports. (See also Table IV).

Committee of the Association African Central Banks¹ signed an agreement establishing a clearing house to centralize financial transactions between member states. For Ghana it represents a multilateralization of a similar agreement signed in late 1970 with Upper Volta whose outlines have been discussed above². Balance of payments problems, foreign exchange sacrifices and currency inconvertibility constitute one of the major restraints on intra-African trade and the basic rationale of the clearing agreement is to eliminate part of this restraint by reducing the need for foreign exchange in settling day-by-day transactions thus releasing it for other more competitive uses³. As a simple multilateral clearing arrangement supported by a short term credit system it falls far short of the payments union, with its elaborate system of revolving credits proposed by Professor Triffin but in a region where inter-state banking relations have hitherto been very limited it is an important first step towards closer monetary co-operation which will be indispensable for the success of the ECOWAS.

The payments clearing system together with the treaty of Lagos constitute two new multilateral instruments which at their full development are bound to play a fundamental role not only in the formulation and implementation of Ghana's commercial policies but also in the general economic development of the country and her regional economic relations.

1) Association of African Central Banks was established in 1968 to promote co-operation in monetary banking and financial matters and to lend support to efforts made towards the establishment and maintenance of monetary and financial stability in Africa. In recent years it has marked to prepare a common stand among member countries at meetings of the IMF. In 1975 it established an African Centre for monetary studies based at Dakar. By mid - 1975 its West African Sub-Regional Committee grouped the following countries, Nigeria, Ghana, Liberia, Gambia, Mali, Sierra Leone and the West African Central Bank grouping Dahomey, Ivory Coast, Senegal, Togo, Upper Volta and Niger.

2) See page 186 above.

3) Clearing and Payments Unions may serve three main purposes. In the first place where inconvertible currencies exist, a clearing arrangement may facilitate the multilateral offsetting of surpluses and deficits and so expand trade. In the second place, it is possible that a clearing agreement may facilitate a reduction in the cost of exchange transactions. In the third place the arrangements might be used to provide credit to countries in temporary balance-of-payments difficulties, either on the introduction of an integration scheme or for other reasons subsequently and so contribute to the better operation of such schemes. Apart from the three principal purposes mentioned above, they may also be used as a policy means for influencing the pattern of trade and development within a regional or continental scheme for economic cooperation on a continuing basis (See R. Robson, op. cit. p. 287).

CONCLUSIONS

Ghana's African trade has so far occupied a relatively insignificant place in her overall commercial policies ; it was only with increasing industrialization that interest in the promotion of trade with her West African neighbour has been actively considered. Intra-African trade has been essentially regional and it is bound to remain a predominant feature of Ghana's African trade for sometime to come. Consequently the promotion of regional co-operation has been an integral part of her policies. It is accepted that only within the framework of a general regional economic integration in West Africa that regional trade can be developed. It is bound to be a long-term programme which will call upon a large fund of perseverance and political goodwill.

Chapter IX

BILATERAL AGREEMENTS AND TRADE WITH CENTRALLY PLANNED ECONOMY COUNTRIES

INTRODUCTION

In the preceding chapter it was pointed out that bilateral trade and payments agreements constitute some of the means by which Ghana has been trying to promote her trade with other African countries. In this chapter an attempt will be made to discuss the rationale and nature of Ghana's network of bilateral trade and payments agreements as an instrument of commercial policy especially with regard to her trade with the centrally planned economy countries.

Trade agreements or arrangements cover broadly the conditions affecting trade in goods and services ; they may be bilateral, multinational or international. The bulk of the network of international trade is governed by a series of such agreements ; in fact there is practically no country involved in international trade which is not directly or indirectly a partner to an agreement of one sort or the other. The conditions of trade mostly covered include tariffs, custom formalities, quotas, licensing of imports and exports, and purchases and sales of State trading organizations. Trade agreements take several forms, the most important among which are (a) treaties of friendship, commerce and navigation ; (b) bilateral or multilateral agreements for the reduction of tariffs, import quotas and other barriers to trade the most prominent example being the General Agreements on Tariffs and Trade ; (c) bulk purchase contracts generally negotiated between governments or government controlled enterprises and specifying qualities and prices of commodities (usually raw materials) to be purchased over a period of one or more years ; and (d) bilateral trade-quota agreements, an important feature of current international trade, these usually provide for two lists of commodities with corresponding quantities or values for which the partner countries agree to grant import and export licenses.

In contradistinction from the above somehow classical agreements are bilateral agreements of the trade-quota type which aim at balancing trade between the partners. Exact balancing is seldom achieved but commodity lists are frequently drawn up with the

aim to establishing target amounts for trade in either direction. Most of the quota agreements between market economy countries are not of the balancing type while those among developing countries and those with centrally planned economy countries often aim at trade balancing and it is to these latter type to which attention will be devoted in this chapter.

Foreign exchange scarcity, and currency inconvertibility are some of the fundamental reasons why nations resort to bilateral trade agreements. The collapse of the international trading system in the thirties caused by severe economic recession, and the immediate post-world II period of currency scarcity and inconvertibility witnessed upsurges in the use of bilateral trade agreements. For African countries while these two factors played a fundamental role in their use of bilateral arrangements, they saw in such arrangements an instrument for the expansion and diversification of their trade, for improving their terms of trade, for stabilizing markets and prices and for securing credits of financial and technical assistance. Before going into detailed discussion of the use of this instrument by Ghana it will be expedient to consider its main features.

Characteristic of the types of agreement under consideration is the commitment to facilitate actively the exchange of goods between partners. Thus, all such established agreements contain, as a fundamental clause, the stipulation that "both contracting parties should support and facilitate within the scope of their internal laws and regulations the widest possible exchange of goods between the two countries as exemplified by the goods listed in the schedules attached to the agreement and other goods not specifically mentioned"¹.

In bilateral agreements which incorporate a provision for balanced trade, the achievement of trade balance between partners is usually observed through the control of licences in accordance with credit limits of established payments arrangements. In addition to explicit or implicit undertaking to issue licences to facilitate exchange of commodities, bilateral agreements usually contain various terms providing for either most-favoured-nation or preferential treatment. At this point it must be emphasized that despite its fairly widespread use, bilateral trading arrangements are generally frowned upon by the market-economy trading community as being inherently discriminatory and contrary to the free trade ideals and economic multilateralism espoused by institutions such as the GATT² and the IMF. The incorporation of m.f.n. clauses in such arrangements cannot totally eliminate their discriminatory features. Most agreements provide that prices of commodities be exchanged be fixed on the basis of world

1) See for example - Ghana Treaty Series (Republic of Ghana), Vol. I January to June 1961, p. 5

2) See Chapter VII above for a discussion on the compatibility of state trading with the G.A.T.T.

TABLE I

GHANA'S TRADE WITH BILATERAL AGREEMENTS PARTNERS¹ - The early period (US \$'000)

Countries	Exports			Imports		
	Pre-Agreement Period 1955	1960	1961	Agreement Periods 1962 1963 1964	Pre-Agreement Periods 1955 1960 1961	Agreement Periods 1962 1963 1964
Bulgaria	-	-	-	428	454	2,080
Romania	-	-	-	-	-	154
East Germany	-	759	-	2,107	6,047	2,209
Poland	-	42	1,452	3,940	4,372	6,093
Albania	-	-	-	84	-	-
China (Mainland)	-	1,365	237	1,248	503	2,811
USSR	11,467	20,370	8,574	13,490	20,615	17,766
Czechoslovakia	-	-	203	1,744	1,809	53
Hungary	-	-	-	2,095	846	-
Yugoslavia	-	947	2,049	3,450	7,119	6,639
UAR	43	-	123	280	203	1,347
Dahomey	-	-	15	18	-	2
Upper Volta	288	510	4,024	5,863	2,478	1,509
Mali	..	..	159	620	301	244
Guinea	..	..	73	104	115	8
Israel	525	451 ^a	1,175 ^a	693	934	2,766
Cuba	-	-	-	-	-	-
Japan	-	2,506	4,551	6,901	10,363	11,412 ^b
Total, 18 countries	12,323 ^c	27,950 ^c	22,035	43,065	56,159	54,939
WORLD TOTAL	241,100	320,347	322,879	322,654	305,396	320,992
					246,047	362,099
					399,935	333,485
					365,161	340,458

a Agreements with Israel also covered 1960 and 1961.

b Trade with Japan came under agreement in 1964.

c Excludes Mali and Guinea

Sources : Based on Bank of Ghana, Research Department data directly supplied ; supplemented by ECA African Trade Statistics.

1963 and 1964 figures from External Trade Statistics of Ghana, December 1963 and December 1964.

(Taken from ECA document E/CN.14/STC/24/Rev.1.)

.. Not available

- Nil or less than half of the unit used.

1 See also table II below

market prices. The scarcity of foreign exchange and the problems of currency inconvertibility which are at the origin of many bilateral agreements have resulted in the incorporation of payments and clearing arrangements in most such agreements with the aim of either eliminating the use of foreign exchange or protecting against its loss.

Frequently bilateral trade agreements have been linked with provision of long-term credits, a major inducement for African countries, presenting attractive possibilities for financing development projects. Credits may be linked with trade agreements either because the repayment is stipulated in commodities or because the credit has been exchanged against commercial concession.

HISTORICAL EVOLUTION OF GHANA'S BILATERAL TRADE POLICIES

The evolution of Ghana's bilateral trade policies can be broken up into various phases. The colonial experience, the post-independence Nkrumah era, followed by a post Nkrumah period of revision and disengagement from 1966-71, and a period of revival subsequent to the change in government in early 1972.

Ghana's first experience in bilateral trading can be traced back to the long-term bulk-buying contracts system which the United Kingdom used during the second world war¹. The United Kingdom government resorted to such bilateral arrangements with her colonial and dependent territories for the purchase of various tropical products at fixed or guaranteed minimum prices. The main objective was to ensure regular supplies to the United Kingdom market during a period of war ; on the other hand it ensured a ready market for these tropical products although at prices often well below the world levels.

In the case of Ghana the main products involved were cocoa, timber, mineral ores and oilseeds. Much of the earnings from these exports were held up as sterling balances which were later to form the bulk of Ghana's foreign exchange reserves. After the war Ghana returned to her normal position as part of the multilateral trading system. As a member of the sterling area Ghana however was affected by the immediate post-war period of currency inconvertibility and dollar scarcity which led the United Kingdom to impose restrictions on non-sterling (especially dollar) payments and to resort to the use of bilateral trade and payments agreements. This situation persisted until the late fifties, and during this period the bulk of Ghana's trade was with Britain, other sterling area countries and other Western European countries.

1) For a study of aspects of the colonial trade system, see "West African Trade" by P.T. Bauer *op. cit.* ; also Larmantine Yates "Forty Years of Trade" *op. cit.*, as well as "Political Economy of Colonialism in Ghana" by G.K. Kay, *op. cit.*

The use of formal bilateral trade and payments agreements as an instrument of commercial policy after independence began in 1958 when the first agreement was signed with Israel. In 1961 fifteen bilateral trade and payments agreements were signed, five of which were with African¹ countries and the rest with a number of centrally-planned economy countries². An agreement was signed in 1962 with Cuba which never came into operation, and two more were signed in 1963 with Niger and Japan. The trade agreement with Japan was more or less of the conventional most-favoured-nation type and that with Niger lacked most of the elements of bilateral trade agreements discussed above ; both agreements therefore fall outside the scope of this study. The 1961 agreements with Dahomey and Upper-Volta were never activated and were replaced by most-favoured-nation trade agreements³. Most of the remaining agreements operated, some actively others not, until the Nkrumah regime was overthrown in 1966. After the coup d'état of February 1966 all bilateral trade and payment agreements concluded with all centrally planned socialist countries were suspended with a view to their review. During the review of these agreements the authorities decided not to conclude any new ones with the Eastern European countries although trade protocols on exchange of goods were concluded with Bulgaria, Czechoslovakia, Poland, Hungary, Romania, Yugoslavia, USSR and the German Democratic Republic. Moreover, the Government decided that all payments agreements should not, with the exception of the USSR, be renewed when they expire. However, new trade agreements were signed in 1968 with Mali, Israel, UAR, Upper Volta and Dahomey. By the end of 1969 all the payments agreements had been terminated with the exception of those with UAR, USSR and Hungary (terminated in 1970).

The tendency now appeared to be firmly in the direction of relying less on clearing arrangements as means of settlement in favour of payments in convertible currencies. After 1st January 1971 payments for imports from a member of bilateral trade countries came to be made in convertible currencies with the exception of imports from Poland, Bulgaria, Romania and USSR, for which " Trade Pact Area " licences are given. This was partly motivated by the desire of the new government to move towards a more liberal trade policy. Only two new agreements were signed between 1970 and 1972 during the Busia government ; a clearing arrangement with Upper Volta⁴ which was signed in November 1970 and came into effect in May

1) The African countries involved were Mali, Dahomey, Guinea, Upper Volta, and the UAR, (Egypt). See chapter VIII for a discussion of some aspects of these agreements.

2) The countries involved were Albania, Bulgaria, Republic of China, Czechoslovakia, Democratic Republic of Germany, Hungary, Poland, Rumania, USSR, Yugoslavia. There were also agreements with Israel and Cuba.

3) As already discussed in the preceding chapter new trade agreements were signed with both countries in 1968 and a special clearing payments agreement with Upper Volta in 1970.

4) The nature of this arrangement has been discussed in the preceding chapter.

1971 aimed mainly at rationalizing Ghana's trade with her northern neighbour and a bilateral payments arrangements with Yugoslavia in March 1971 which included provision for payments in convertible currencies. The fall of the Busia government in early 1972, and the accession to power of the National Redemption Council, a more socialist inclined government, meant a revival of trade and economic relations with the centrally-planned economy countries. In 1972 a new trade and bilateral payments agreement with provisions for clearing accounts was signed with the Republic of China; on the other hand when the agreement with Poland expired at the end of 1974 it was replaced by an arrangement which placed settlements on a convertible currency basis. At the beginning of 1975 Ghana has clearing agreements with only three centrally planned economies namely China, Romania and USSR. There is the likelihood of this number being reduced further.

Objectives

The motives and objectives of Ghana's bilateral trade policy have been both political and economic. When she concluded her first bilateral trade agreement in 1958 with Israel, it was for the latter a first foot-hold in Africa south of the Sahara and was to serve a model for her subsequent relations with independent Africa. For both countries, it was not only the opening of formal trade links between the two countries but also a facet of a wider and growing field of co-operation embracing shipping¹ and technical assistance in agriculture and other fields. The same admixture of political and economic motivations underlie similar bilateral agreements with Ghana's African partners as well as with the centrally-planned economy countries.

Ghana's foreign policy under the Nkrumah government was based on positive neutralism; this for a newly-independent country meant lesser links with the West and more eastward direction in inter-national policies. Domestically it was the policy of the government to create a socialist state. Trade was to become an instrument of Ghana's international political realignment, hence as the government moved eastward politically so too did the country's trade. In 1961 during an extensive tour of Eastern Europe bilateral trading agreements were signed with all the major Communist countries and in the comprehensive system of import controls instituted in the same year in face of Ghana's worsening balance-of-payments deficit, a provision was made to ensure that Ghana imported from the Eastern countries on an increasing scale. There were, however, also strong economic forces at work; Ghana was seeking to broaden the market for her main exports as a means of promoting their export performance and terms of trade. The growing economies of Russia and eastern European countries offered strong pros-

1) The Ghana National shipping line, "The Black Star Line" was set up in September 1957 in partnership with the Zim Israel Navigation Company of Haifa. In 1960 the Ghana Government bought up the 40 per cent share held by Zim, thus becoming the sole owner. However Zim was retained as Managing Agents until December 31st 1967 when the agreement was mutually terminated.

pective markets for Ghana's cocoa, and cocoa products which could not be overlooked especially with the low cocoa prices reigning at that time, and the failure, after years of effort, at arranging an international stabilization prices. It is also significant that the year of bilateral agreements coincided with a severe worsening in the country's balance-of-payments situation necessitating the imposition of exchange and import controls. Another important factor was the willingness of communist states to offer medium-term trade credits¹ on terms apparently much more favourable than were being obtained from the West. Credit for seven or eight years at 2 1/2 per cent was fairly typical as compared with the 6 1/2 per cent on Western and World bank loans at that time. In many cases, the trade and payments agreements were accompanied by parallel agreements on technical assistance, general economic and cultural co-operation.

The rest of this chapter will be devoted to a discussion of the bilateral trade and payments agreements within the framework of trade relations with the centrally-planned economies, analysing some of their major advantages and disadvantages and the main problems connected with their administration.

GHANA'S TRADE WITH CENTRALLY-PLANNED ECONOMIES

Theoretical framework and modalities

Ghana's trade with the centrally-planned economies has been conducted within the framework of medium-term bilateral trade and payments agreements and contracts supplemented by annual implementing agreements in the form of trade protocols. The basic reason for the recourse to these instruments can be traced to the very nature of economic and foreign trade planning of the centrally planned economies². In the centrally-planned economies foreign trade is carried on by state trading enterprises each with a monopoly of trade in its field of operation, within the larger framework of national foreign trade plans which are part of the state plans for the economy as a whole. Production and its related trade are fully in the hands of

1) At the time of the fall of the Nkrumah government Ghana was indebted to the CPE countries (excluding Yugoslavia) to the tune of 61.7 million dollars. This arose from "supplier" credits with an average maturity of 10 years for the financing of projects ranging from a gold refining plant, plant for making pre-fabricated houses, silos, canning factories, a nuclear research plant to a hydro-electric plant. Many of these projects were suspended at the time of the coup d'état pending a general review of Ghana's bilateral trade and co-operation agreements and at the time of writing some of them have not yet been received.

2) For a discussion of some of the basic features of the foreign trade of centrally planned economies, see "Trade Problems Between Different Economic and Social System" - Proceeding of the UNCTAD - March-June 1964, Volume VI - (Trade Expansion and Regional Grouping) - p. 122-128 - UNCTAD document E/CONF. 46/141, Vol. VI. See also "Economic Principles of the Foreign Trade of Socialist States" by V.P. Sergeyev in International Trade Theory in a Developing World - Edited by R. Harrod and D.G. Hague - London 1963. For a discussion of some of the problems of East-West trade, see Multilateral Commercial Diplomacy Gerard Curzon, op. cit. p. 290-312.

the state, hence external trade can only be organized on a state by state basis in the framework of bilaterally negotiated trade agreements. National economic plans, and foreign trade plans, as one component of them, are normally established for medium-term and longer periods¹ as well as for each year, and in the case of the foreign trade plans for shorter periods. The import and export plans are established by commodity or commodity groups in terms of values to be realized in foreign exchange (to ensure the required balance of international payments) and in terms of value at domestic plan prices and, for key products at least, in quantitative terms when feasible. These plans have to be closely correlated with those for production, material inputs, retail trade, investment, etc... In addition, the foreign trade plans are broken down by market area or individual partner country. In effect it may be claimed that the import plan is the primary element in foreign trade planning in the centrally-planned economies, with the export plan being essentially the means for financing needed imports², though the assessment of the level of exports likely to be achieved on acceptable terms may lead to a revision of the original estimate of import "needs". This approach is in line with the general emphasis on production-based planning in these countries, in contrast with the demand-planning approach normal in developed market economies. In effect, as indicated above, the decisions whether to import, produce or export a particular product are decisions of the planning authorities influenced but not directly determined by, inter alia, calculations of relative costs³.

Allied to the factors discussed above another important factor which underlies the use of bilateral trade and payments arrangements in trade with the C.P.E. countries is that their currencies are generally inconvertible hence the need to specify the terms of financing trade and regulate its volume, rhythm and balance in agreed terms.

Another important element in the foreign trade of the centrally-planned economies is their pricing system. In general, domestic prices converted at official rates of exchange bear no direct relation to world prices and a variety of means are needed to allow enterprises to export and import without suffering losses or making excess profits.

The outcome is the absence of a firm basis for an international comparison of prices of the goods traded by the C.P.E. countries which implies that trade with them cannot be on the same basis as with market economy countries, hence reinforcing the need for special bilateral arrangements.

1) The plans are in recent years established for 5-7 year periods within the framework of less firm and detailed "perspective plans" for 10, 15 or even 20 years.

2) As a direct result of the growing volume of trade with the industrialized market-economy countries, there has however been an increasing tendency for the C.P.E. countries to rely on credits from the western countries for the financing of their imports.

3) See the definition of state trading by Scammel at p. 157 above.

As the decision to import or export, the volume, composition and direction of trade are all matters for the government, they are bound to be highly influenced by political factors such as the general atmosphere of the international power politics, the ideological orientations of the trade partners, etc...¹

Form and nature of Agreements

Ghana's bilateral trade and payments agreements with the socialist countries of Eastern Europe and China had most of the attributes typical of such agreements as discussed earlier in this chapter², although they differed from each other in details. They were all signed for a period of five years³ renewable automatically with provision for termination by either partner after an appropriate notice. The commodity composition of trade was in most cases listed in a schedule attached to the agreements. With the exception of few cases⁴ the amount of trade was not specified. Ghana's exports to the socialist countries, like those to her traditional markets composed mostly of agricultural primary products, such as cocoa beans, and processed cocoa products, timber, coffee, skins and industrial diamonds. The imports comprised various manufactured products, including motor vehicles, household utensils, machinery of all kinds, aircrafts, motor cycles, radio sets ; petroleum and petroleum products, chemicals, fertilizers, rubber manufactures, etc... There was provision in all the agreements for swing credits varying from £G 150,000 in the first agreement with Romania, to £G 4 million in the first agreement with the USSR ; excess over the ceiling was to be settled in goods in some cases, in an agreed or convertible currency⁵ in other cases, or in a combination of the two in others, or in an agreed manner. A provision was made in the agreements for a most-favoured-nation treatment where this was applicable. In some of the agreements, it was specified that the contracts were to be made on

1) Although this more or less true with most nations its use appears to be more pronounced with the C.P.E. countries. This point has been succinctly emphasized by Kindleberger when he pointed at the "readiness" of the Soviet Union to buy fish when Iceland was unable to sell its catch to the West or to absorb Egyptian cotton, Cuban sugar and similar surpluses elsewhere when there was a political advantage to be gained from it without initially questioning whether the commodities would readily fit into domestic requirements or could be resold elsewhere at a profit or a tolerable small loss". (Charles Kindleberger - "Foreign Trade and the National Economy", p. 159-160 (Yales University Press 1962).

2) See Appendix I for the details of a recent agreement.

3) The duration has been reduced to three years in some recent agreements.

4) In the 1961 Agreement with China it was specified that the annual volume of exports in each direction should be £G 4 million. In the case of the Agreement with Czechoslovakia it was stated that there should be a continual increase in the exchange of goods so that the volume of mutual trade would be double that of 1961.

5) This was the case in the agreements with Czechoslovakia, Hungary and Poland which stipulated that if it was not possible to clear outstanding balances by delivery of goods, the remainder was to be paid in convertible currency immediately on the request of the creditor country. This introduced an element of multilateralism.

the basis of world market prices and that there was to be no re-export of imports without prior approval. For the operation of the clearing arrangements the Bank of Ghana created special non-resident accounts known as "official accounts" or "territorial accounts". In order to enforce the utilization of the trade possibilities opened up by these agreements special import regulations were created from time to time. It was specified under the import regulations of 1963, for example, that certain imports could be obtained only from bilateral agreements countries and 20 per cent of other specified imports had to be obtained from those countries. The import licensing system was consequently fashioned in support of this ruling.

Pattern and evolution of trade

The volume of Ghana's trade with the centrally-planned economies has followed a fluctuating pattern depending upon the general political orientation of the government in power in Ghana (See Tables in chapter II). From a negligible level before independence it has already doubled by 1961 the year in which the government, in line with its policy of neutralism, and its desire to reorient the trade of Ghana signed bilateral trade and payments agreements with all the socialist countries. From then on, as the table shows, there was a steady increase in trade until 1966 when there was a change in government. The share of the socialist countries in Ghana's trade increased from 5 per cent in 1961 to 24.2 per cent in 1965. This increase in trade was mainly at the expense of the United Kingdom and other traditional trade partners. Between 1965 and 1967 Ghana's imports from the socialist countries decreased sharply by 62.4 mn cedis from 84.2 mn cedis to 21.8 mn cedis and although they rose gradually at an average annual rate of 17.6 per cent between 1967 and 1970 the level of 35.5 mn cedis attained in 1970 was less than half of what was imported in 1963. Exports also showed a similar pattern. Between 1965 and 1969 they decreased from 38 mn cedis to 28.8 cedis although they rose sharply in 1970 to 75.9 mn cedis. Figures for 1971 and 1972 show that there was a sharp reversal in both exports and imports in 1971 and a perceptible recovery in 1972. One major reason for this fluctuation in the volume of trade, as has already been emphasized, were the changes in governments and subsequently in the policies regarding relations with the C.P.E. countries. The changes in policy could not be traced solely to the political re-orientation of the different governments but also to the inadequacies in the bilateral trading arrangements until then. Before assessing the use of these commercial policy instruments by Ghana it may be pointed out that the revival of economic relations with the countries after 1972 was prompted as much by the desire of the Ghana Government to revive some of the economic projects abandoned after the change-over in 1966 and for which part payments have been made, as by the desire to revive trade as such. Since 1972, despite a recovery in trade, the percentage share of the C.P.E. countries at the time of writing has been below its pre 1966 levels with their share in the export trade much higher than in the import trade,

TABLE II
Share of Centrally-Planned Economies¹ in Ghana's Trade

	1964		1965		1966		1967		1970		1971		1972		1973		1975	
	I	E	I	E	I	E	I	E	I	E	I	E	I	E	I	E	I	E
Total Ghana Trade (million cedis)	243.2	229.3	320	226.9	251.2	191.4	261.5	245.1	419	467.4	443.1	376.9	393.3	564.4	525.9	730	909	938
Percentage share of Centrally-Planned Economies	15.8	11.8	26.3	21.3	15.2	21.0	8.3	15.1	8.5	16.2	6.1	6.8	7.5	14.3	5.9	13.1	4.4	16.2

¹ USSR, Eastern European Countries, Peoples Republic of China

I : Imports

E : Exports

Source : *Ghana Economic Surveys (Central Bureau of Statistics)*.

a fact which has been partly due to Ghana's current policy of relying more on financing trade in convertible currencies and subsequently eliminating the need for a strict balancing of imports and exports.

AN ASSESSMENT

The basis for assessing Ghana's bilateral trade and payments agreements with the centrally planned economy countries of Eastern Europe and China is the extent to which they fulfilled the objectives they were meant to achieve. To the extent that the agreements led to a significant diversion of trade from her traditional partners to the agreement countries they achieved the aim of diversifying Ghana's external trade markets. At its height in 1965 trade with these countries reached about 25 per cent of total trade. Without these agreements it would not have been possible to open up trade with these countries. With these agreements Ghana's policy of loosening its political alignment with the West in favour or a more neutralist stance also saw its fulfilment. Whether they were economically justified is another question.

Bilateral trade and payments relations may be economically justified to the extent as they result in a net improvement in the foreign exchange resources and in the total volume of trade of each of the partners through the bilateral clearing arrangements which lead to the conservation of foreign exchange on the one hand, and the opening up of new avenues for increasing trade. Clearing arrangements should enable countries to maintain a substantial volume of trade with their mutual debts offsetting one another, thus tying up only a minimum amount of scarce foreign exchange. Where the introduction of bilateral trade, based on clearing arrangements, into the trading system of a country does not lead to an overall increase in trade it implies trade diversion. An analysis of Ghana's trade with the bilateral agreements countries indicates that despite their importance as a new market there was no significant increase in Ghana's overall trade which goes to emphasize the trade diverting effect of the agreements. This diversion of trade has been more observable in imports than exports where the need for market expansion has been ever present. Some diversification of exports has however been facilitated by the agreements. Farm products hitherto not exported such as oranges, pineapples, groundnuts and rubber became part of Ghana's export list although the volumes concerned were rather insignificant. More important, the bilateral countries became a major market for Ghana's cocoa. Their percentage share increased from about 8 per cent in 1961 to about 24 per cent in 1964 and roughly the same percentage for 1974/75. In the 1974/75 season the centrally planned economies including Yugoslavia and Republic of China took about 27.8 per cent of Ghana's total bean exports of 332.499¹ tons.

1) For sources, see Quarterly Bulletin of Cocoa Statistics (Vol. II No 4) of the International Cocoa Organization.

The expansion and diversification of the market for cocoa and cocoa products have had a boosting effect on world cocoa prices. There was however in the early years when exports to C.P.E. countries were said to have been sold back on the world market resulting in the depression of prices. In later protocols provisions were inserted aimed at preventing such practices. Where exports to bilateral trade countries did not represent a significant increase in overall exports, as has sometimes been the case, they implied tying up a substantial part of the country's export earnings in inconvertible currencies, thus defeating one of the principal aims of the country's bilateral trade policy namely a net improvement in the foreign exchange resources.

The problem of balancing

The implementation of the various agreements revealed serious shortcomings and drawbacks worth examining in greater details. Some of these shortcomings arose from Ghana's inexperience in trading with centrally planned economies, others were inherent in the agreement themselves. One basic difficulty was that of balancing trade and bilateral payment positions¹. Targets could sometimes not be realized on either or both sides and the shortfall was often due to inadequacy of supply or demand. An examination of Ghana's trade balances with the centrally-planned economy countries in the early years (see Table 2) shows that for most of the period of active trade Ghana's trade was in surplus, which in effect meant that Ghana was offering trade credit to her relatively more advanced countries. As long as settlement of surplus² was not immediately effected in convertible currencies this presented an unfavourable situation especially for a country in balance-of-payment difficulties; balances were frozen and a potential capacity to import was foregone or the country was sometimes obliged to accept unwanted-goods in settlement. On occasions when Ghana had run up deficits with bilateral agreement countries this has been due partly to inadequacy of commodities available for immediate exportation and partly to the diversion of exports to other markets either because of higher prices or for a convertible currency as well as the attempt by bilateral agreement countries to liquidate accumulated credits.

Other causes of the difficulties in balancing trade were many. In some cases, unfamiliarity of consumer tastes with the new products, rendered importers reluctant to place orders. In the first years of bilateral trade certain Western controlled importing firms simply refused to import from bilateral countries until the government specified through licensing procedures that certain commodities or

1) Problems arising from the need for balancing trade and payments can be illustrated by what happened in 1972 when Hungary unilaterally used the credit on trade balance in Ghana's favour to liquidate part of Ghana's debt on supplier-credit balance.

2) Transfer of convertible exchange will not take place as long as the deficit is within the limits of the swing credit or can be settled with goods. Therefore the problem is more serious the greater the amount of "reciprocal credit" stipulated.

TABLE III

**Imports of Cocoa (beans) by Centrally-Planned Economies
from Ghana (1971-1974/75)**
(ooo' tons)

	1971	1972	1973/74	1974/75
World Total	314.2 (100 %)	412.2 (100 %)	320.5 (100 %)	332.5 (100 %)
Czechoslovakia	0.4	6.6	7.6	5.7
Germany D.R.	—	—	3.0	2.0
Hungary	—	—	3.0	7.1
Poland	1.0	11.6	7.9	17.9
Romania	—	0.5	—	2.5
Yugoslavia	17.3	24.3	15.3	20.7
USSR	13.0	65.3	15.6	31.9
Rep. of China	—	—	5.0	4.6
Total	31.7 (10)	108.3 (26.3)	57.4 (17.9)	92.4 (27.8)

Source : Quarterly Bulletin of Cocoa Statistics (Vol. II, No 4 ; 1976) - International Cocoa Organization.

percentage of imports could only come from such countries. Even then licenses issued for imports from bilateral countries were often diverted through fraud, to traditional markets. Apart from the question of taste, the reluctance of Ghanaian importers to import from these countries was also due to the poor quality of some of the goods as compared with traditional imports, and to delays and irregularities in deliveries¹, which created a feeling of mistrust on the part of Ghanaian importers. One reason for such delays in delivery is the rigidity inherent in the strict planned production system of these countries which cannot easily accommodate unscheduled demands. This drawback meant that orders had to be placed long in advance which was not always convenient. Another explanation for the long delay was the small number of regular shipping lines connecting the ports of the socialist countries of Eastern Europe with Ghana.

Another factor which disadvantaged products from the socialist countries of Eastern Europe was the insufficiency of facilities for after-sales servicing as compared with those offered by firms from developed market economy countries. There were many instances of agricultural tractors and machinery which, once there was a breakdown, had to be abandoned and given up for lack of spare parts and repair facilities. As new entrants to a market traditionally oriented to highly industrialized Western countries they suffered the disadvantage of supplying goods some of whose technical characteristics differed from those to which the local consumers were accustomed. Some products were not adapted to the local climatic conditions. Fundamental to most of these problems is the very nature of the philosophy of trade of the C.P.E. countries on the one hand, and of the Ghanaian, and for that matter most African markets on the other². The salient feature of the former's foreign trade as already

1) In a reference to the dissatisfaction with the bilateral agreements the Abraham Commission reports :

" Such agreements, although attractive and helpful, have sometimes posed their own problems. For example, a whole consignment of Corned Beef, obtained under bilateral trade agreement, had to be condemned by Port Health Authorities at Tema in 1964. A number of importer companies promptly cancelled their orders and could not use the tied licences issued for that commodity. Another brand supposed to be corned beef suffers from a misnomer. It appears to have been fobbed off on the people of this country as 'corned beef' when in fact it is pork luncheon meat with a minute dash of corned beef in the middle of most tins ".

It states further

" ... and the limited field of quality foods offered by Trade Pact areas, and their eventual high prices, meant that this country, although fortunate to have the best facility, could not really enjoy it to an extent which it needed ".

(Report of the Commission of Enquiry into Trade Malpractices in Ghana (Abraham Commission) 1965, op. cit. page 6 paragraph 34 and page 7 paragraph 38. See also page 18 of the Report.

2) For a discussion of some of the problems arising from trade between developing countries of Africa and socialist countries of Eastern Europe especially from the point of view of the latter, see UNCTAD document TD/B/505/Supp. 1 (5 July 1974).

discussed above is the system of State monopoly and the fact that such trade is carried out by large, centralized, State-owned or co-operative enterprises which because of their large size, expanded scope of operations, large turnover and a high degree of commodity specialization, are not always fully equipped to handle transactions which sometimes require deliveries in tiny lots but at a high frequency.

Pricing

Another major difficulty which has often arisen in the administration of the bilateral agreements has been that of "pricing" and this has been all the more so in the case of primary commodities like cocoa highly susceptible to price fluctuations on the world market. The difficulty lies in the fixing of prices in advance for a long period without any degree of certainty that the outcome will always be acceptable to both partners. During the period of declining world commodity prices, such an arrangement may move in the favour of Ghana as happened in 1964 when per unit earning from cocoa exports to the USSR were 3 and 7 per cent higher than per unit earnings of cocoa exports to the world and the United States respectively. The opposite may happen during periods of rising prices. However the C.M.B. has since recent years changed its sales techniques¹ in trade with these countries. Instead of entering into long-term sale contracts involving large amounts of cocoa it sells in smaller lots in strict alignment with market prices and its own price forecasts. At times a sale could be refused if the price being offered did not conform with the Board's price estimate. In these ways the Board can take full advantage of changes of the market situation instead of the former practice of committing itself to deliver for a long time huge amounts of cocoa, irrespective of future changes in prices. The determination of the prices of imported manufactured goods², particularly capital equipment also presents considerable difficulties, especially when it comes to differentiating the multiplicity of varying qualities. This becomes particularly involved where the technical personnel lacks acquaintance with most of the products imported within the framework of bilateral agreements. There are other technical difficulties connected with the pricing problem such as the determination of relevant exchange rates³ in case of a multiple exchange system, and the necessary adjustment in the event of devaluation.

Others

One simple but serious problem which the author came across in his discussions with members of the Ghana Chamber of Commerce

1) From information obtained from officials of the C.M.B.

2) For a discussion of the principles underlying the pricing system in the centrally-planned economies, see UNCTAD documents E/CONF.46/141/Vol. VI op. cit. p. 124-125.

3) The exchange rate established in payments agreements is a crucial factor in determining trade flows and the value of the clearing arrangement. It is for this reason that many clearing agreements contain a clause providing a gold equivalent for each country's currency, as protection against a devaluation by one of the parties.

and other trade officials was the difficulty in getting normal commercial complaints redressed, due to the fact that, dealing with state monopolies in the partner countries, such complaints had to be passed through complicated governmental channels when they could have been dealt with through direct representation in a normal commercial relation. Apart from the adverse effect of this on commercial transaction it may present an example of a type of political objection to state trading referred to by Viner, namely that it involves the substitution of government business for private business which might involve a process of transformation of private quarrels into international quarrels¹. On the other hand it could happen that under the umbrella of governmental discussions, complaints which could normally result in long drawn out disputes can be more expeditiously settled. In the process of revising Ghana's agreements after the change of government in 1966 provision was made for an arbitration machinery in case of disputes. In 1973 a co-ordinating committee called the Committee for Economic Co-operation with Eastern European countries was set up by the NRC to co-ordinate and ensure implementation of decisions regarding Ghana's trade and economic relations with the C.P.E. countries.

A general criticism of clearing arrangements which had been relevant to Ghana is that they have been used as a stop gap measure to postpone taking more drastic steps to bring a chronic balance-of-payments deficit into line. It is not irrelevant that the year (1965) in which Ghana witnessed probably her worst trade deficit of the sixties also witnessed her trade with the socialist countries at its peak, when many Western countries were refusing her trade credits.

POSSIBLE FUTURE EVOLUTION OF TRADE

The future evolution of Ghana's trade with the centrally-planned economies will depend as much on political as on economic factors. Past experience has shown that much depends on the political and ideological disposition of the government in power in Ghana, its attitude towards the centrally planned economy countries and on the reciprocal attitude of the latter since, perhaps to a greater degree than in market economy countries, trade plays a major rôle as an instrument of international politics. The continued growth of mutually beneficial trade between Ghana and the socialist countries with centrally-planned economies will, apart from the political factors mentioned above, depend (a) on the general future evolution of the trading relations between centrally planned economies and the market economy system, and (b) the extent to which the shortcomings in the present framework of trade could be corrected.

1) See Viner "International Relations between State Controlled National Economies. Papers and Proceedings of the 46th Annual Meeting of the American Economic Association-Supplement 34 - American Economic Review, Vol. XXXIV, p. 315, 318 (1944).

Rapprochement in East-West trading systems

In recent years, the C.P.E. countries of Eastern Europe have introduced certain changes in their economic systems, aimed at improving the efficiency of resource allocation and the general performance of the economy. These reforms entail a greater decentralization of the decision-making process, including measures which will promote closer relationships between the producer and the foreign buyer, and between the end-user and the exporter from abroad. At the same time the economic entities participating in foreign trade are becoming, under the impact of the reforms, much more cost conscious, and commercial considerations are increasingly brought to the fore in their dealings with third countries. In this and other ways the groundwork is being laid for a gradual rapprochement between the market and centrally planned economies within the world trade system. Another significant factor in this regard has been the entry of many centrally planned economy countries into the GATT where they are constrained to accept some restraints on the operation of the state trading system.

A full integration of the centrally planned economy trading system into the world trading pattern is however a long way off and in the meantime more could be gained by concentrating on the reform of the framework of trade with the developing countries. Some possible lines of reform of the current framework of trade could be the introduction of a greater element of multilateralism and enhancing the flexibility of payments arrangements built into trade agreements. The increasing emphasis on the use of convertible currencies in Ghana's payments arrangements with some C.P.E. countries has already introduced an element of multilateralism. However, more could be achieved in this direction. Even where bilateral clearing of payments is employed an improvements could be introduced which could enable Ghana to balance trade not with each CMEA country but with the whole of them as a group in a sort of multilateralization of payments. In the same way "swing-credit" arrangements could be made in such a way as to allow compensation of some bilateral debit and credit balances. Multilateralization of payments with the CMEA countries could be enhanced by a greater degree of monetary integration among the CMEA countries themselves.

Ghana - C.P.E. trade - Some practical proposals

Another possible line of reform might be the introduction of long-term provisions into trade agreements. The establishment for example of shopping lists of Ghana for imports of equipment and other goods likely to be required for some years ahead, and catalogues of the centrally planned economies' estimates of the quantities of various types of equipment they could realistically undertake to supply over a period of say five years or more might be helpful. Such estimates could provide a basis for planning by Ghana to ensure a growth of imports from the centrally planned economies adequate to pay for the exports to them. This could help to avoid the unfortu-

nate experience on both sides of demands which cannot be fulfilled or could be fulfilled only after long delays.

The establishment also by Ghana of special institutions geared to trading with bilateral agreement countries might held to encourage such trade. After-sale servicing and agency arrangements, product promotion and advertising will have to be improved if trade with relatively new-comers to the Ghanaian market such as the CMEA countries is to be increased in competition with well established trading firms¹. The improvement of shipping between the two markets is another area where improvement is needed ; this will however depend, among other things, on the potential volume of trade. Administrative procedures especially regarding import licensing will have to be improved to facilitate importation by private Ghanaian business. The promotion of joint business ventures in Ghana offers some of the avenues for trade promotion ; joint industrial ventures, especially in the commodity processing sector, would promote greater imports of capital and intermediate goods from the CMEA countries in exchange of processed primary commodities. As has already been emphasized, an improvement in trade between the two partners would depend to a large extent on the durability of the political regimes in power especially in Ghana, which could provide a stable policy framework for the development of trade. Perhaps even more fundamental for the development of trade between Ghana and the bilateral trade countries is a general dynamic growth in Ghana's external trade, for only in the framework of such growth can the use of bilateral trade mechanisms be economically justified.

CONCLUSIONS

The centrally-planned economies form an important element in the international trading system and it was inevitable that at one time or the other Ghana had to find a way of developing her trade with them. The development of this trade in the sixties was certainly over-hasty and was more politically than economically motivated ; neither were the problems involved sufficiently appreciated, with the result that the benefits and disadvantages drawn from the last one and half decades of economic and commercial relations with these countries appear to have been only just evenly balanced. However very valuable pioneering experience has been gained which, with a correction of the deficiencies in the instruments employed, might in future result in a greater level of gainful trade for both partners. In the meantime Ghana, has among other things, learnt that even in trading with these countries which profess a high degree of political sympathy for her, strict bargaining and commercial considerations are no less important than when dealing with market economy countries.

1) It should not be out of place for agents from supplying countries to be stationed in Ghana to study market tastes and local conditions as is usual in trade with developed market economy countries. The author was informed by officials of the Ministry of Trade that requests for agents have often been made only to be answered with platitudes about mutual trust and goodwill.

Chapter X

GHANA AND MULTILATERAL COMMERCIAL DIPLOMACY : INSTRUMENTS AND DYNAMICS

INTRODUCTION

The multilateralization of international commercial diplomacy though not a recent phenomenon has had a spectacular development since the end of the second world war. Multilateralization in the sense being applied here implies negotiations among a group of states, leading to a several-sided convention mutually binding all the states belonging to the group. This is in contradistinction from bilateral negotiations whereby state A orders its commercial policy relations with other states in separate negotiations and treaties. Hundreds of such treaties exist and are playing a major role in guiding international commercial relations. For various reasons multilateral commercial diplomacy has come to be institutionalized¹. Firstly, the number of countries involved, and the wide nature of such agreements necessitate the maintenance of a more or less permanent officials to service the implementation of the articles of the agreement and provide a framework for periodic consultations, re-negotiations and arbitration when necessary. Current international economic relations are practically dominated by multilateral institutions of all kinds ranging from world-wide institutions like the GATT, UNCTAD, IMF to regional customs unions and free trade areas, preferential zones, international commodity organizations, etc. All these institutions do influence the commercial policies and actions of their member states in various ways.

The League of Nations' efforts for freer trade and the many economic and monetary conferences of the period saw attempts at the revival of economic multilateralization. The revolutionary development in the multilateralization of commercial diplomacy since the end of the second world war has been the outcome of a general desire of the international community to establish a new world order, and to substitute international cooperation, consultations, negotiations and arbitration for bilateral confrontation,

1) Institutional multilateralism must be carefully distinguished from economic multilateralism which in its simplest form can be defined as the existence of triangular economic relations between states. The clearest example of such relationship is in international payments and trade which imply a multilateral rather than a bilateral balancing of trade and related payments. In this sense there can be institutional multilateralism without economic dimension.

unilateral actions and nationalism. The advent of a host of relatively weak and inexperienced nation states on the world scene, as colonial empires collapsed, made such development not only necessary but accelerated its growth. In the rest of this chapter attempt will be made to analyse and demonstrate to what extent these institutions, providing the framework of multilateral diplomacy are influencing the commercial policies of a newly independent developing country, and are being used as instruments of such policies. They provide fora within which a developing country can express its views directly to a wide international audience in a way it could not do unilaterally, hear the views of others, discuss and consult with other countries on problems both peculiar to it and those of common interest, settle disputes and can best negotiate on issues by relying on the collective bargaining strength of other countries in similar situation. As has been stated in chapter three, Ghana had by virtue of her membership of the Commonwealth Preferential trading system¹ had a fairly long experience in institutionalized multilateral commercial diplomacy of the type being discussed in this chapter.

1) The sterling area payment system which was the central feature of intra-Commonwealth trade offers a good example of a multilateral payments system, of the type mentioned in footnote one above.

SECTION "A"

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

While the Commonwealth Preferential System may have played an important role in promoting Ghana's trade with Britain and the Dominions, it is the General Agreement which has since 1948 provided the general multilateral framework for Ghana commercial policy relationship with the trading world at large. The modality of Ghana's accession to full GATT membership has already been discussed in chapter III. Membership of GATT differs in an important respect from membership of other international organizations. The GATT is a multilateral treaty embodying substantive rights and obligations of a legal character which bear directly on the formulation and conduct of the commercial policies of the governments which are parties to it. The relevance of every treaty lies in its application and the GATT is not an exception. The General Agreement itself has not been modified in any major way since its signature apart from the addition of Part IV on developing countries. It has however evolved over the years through application by way of the numerous consultations, arbitrations, notifications, continuous discussions of and concertations on issues and especially the series of negotiations held under its auspices, culminating in the Tokyo Round¹ of multilateral trade negotiations, mentioned earlier.

Rights and obligations

The rights and obligations which derive from the General Agreement are designed to achieve certain objectives which have been set out in the Preamble. Contracting Parties recognize that ... " their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods " ². The preamble goes on to outline the two principal ways for achieving these objectives namely a) the substantial reduction

1) While all the previous rounds of negotiations have concentrated mostly on eliminating industrial tariffs, the current Tokyo Round inaugurated in September 1973 has been an ambitious attempt to liberalize further the remaining tariff barriers in trade in industrial products; to tackle problems in trade in agricultural products; and for the first time attempt to eliminate a host of non-tariff barriers to trade ranging from quantitative restrictions, standards and quality requirements, to government procurement, and customs valuation. The negotiations also aimed at strengthening certain articles and clauses of the General Agreement, such as the articles on subsidies and the use of safeguards, whose non-application or misapplication has been considered as vitiating the free play of international trade competition. Special and differential consideration were to be given to developing countries in all this. Finally, the very framework of the General Agreement was expected to be reformed in such a way as to make it more effective in facing future problems in international trade.

2) B.I.S.D. (Basic Instruments and Selected Documents) Vol. V, p. 1, GATT.

of tariffs and other barriers to trade and b) the elimination of discriminatory treatment in international commerce. The basic tenets¹ of the General Agreement may be summed up as the following :

(i) Member countries should grant one another treatment at least as favourable as they grant any other country (the "most-favoured nation" principle), subject to the right, provided certain conditions are met, to form free-trade areas or customs unions, and subject to the possibility to maintain preferential systems existing at certain dates.

(ii) Protection should, in principle, be accorded to domestic industries through the customs tariffs and not through other commercial measures (such as quantitative restrictions), and it is the intention to reduce progressively the general level of tariffs, whenever possible, through successive tariff negotiations.

(iii) Contracting parties should use the procedure of consultation, directly with other contracting parties or with the CONTRACTING PARTIES collectively, in cases of dispute and to avoid damage to one another's trading interests.

(iv) Contracting parties should take such joint action as is necessary to further the objectives of the Agreement.

M.F.N. treatment

The first principal obligation assumed by GATT members requires the extension of most-favoured-nation treatment to all contracting parties. The principle of non-discrimination is upheld throughout the Agreement although provision has been made to cover preferential arrangements in existence at the institution of the Agreement and, under Article XXIV, contracting parties have the possibility of establishing custom unions and free-trade areas subject to certain criteria designed to safeguard the interests of non-participating contracting parties. The application of the m.f.n. principle to the multilateral tariff negotiations in the GATT implies that countries like Ghana can benefit from a wide range of concessions thus avoiding the necessity for bilateral bargaining with all importing countries. This is particularly important for developing countries

1) Gerard and Victoria Curzon have summed up the following as the four pillars of the General Agreements : i) non-discrimination, ii) expansion of trade via reduction of barriers, iii) international trade order consisting of a certain number of ground rules i.e., a) substantial reduction of tariffs and other barriers to trade, b) application of the general and unconditional m.f.n. clause, c) the prohibition of import restrictions other than duties especially quotas and licensing schemes and d) the multilateral supervision of and control over countries wishing to invoke any of the many escape clauses in GATT and iv) reciprocity in bargaining.

See - "The Multilateral Trading System of the 1960 s" by Gerard and Victoria Curzon in INTERNATIONAL ECONOMIC RELATIONS OF THE WESTERN WORLD 1959-1971 ; (volume I "Politics and Trade" edited by A. Shonfield O.U.P. 1976.

because a joint approach in GATT negotiations for the reduction of a particular tariff in a particular importing country is more effective than individual bargaining with that country. Although the m.f.n. clause is one of the basic principles of the GATT the need for special preferential concessions in favour of developing countries, in its application has now been accepted. After many years of long and protracted discussions initially in the GATT and effectively in the OECD and UNCTAD, arrangements were drawn up in 1972 for the establishment of a Generalized System of Preferences to developing countries. The GATT took the necessary legal steps for authorizing the donor countries to deviate from the m.f.n. principle in the form of a waiver from Article I valid for ten years. The full implication of the GSP for Ghana will be discussed later ; in sum it permitted developed contracting parties to accord preferential tariff treatment to developing countries, members or not members of GATT, without according such treatment to other contracting parties. Similar waivers were given early in 1968 and in November 1971 to a number of developing countries¹ which has reached agreement on a preferential exchange of tariff concessions amongst themselves.

Maintenance of concessions

The second principal obligation which a country accepts when it joins the GATT is to maintain, subject to the possibility of adjustment through renegotiations under Article XVIII and XXVIII, the tariff concessions it has undertaken either during the course of its negotiations for accession or during subsequent negotiations. All concessions under GATT are granted to all contracting parties and all contracting parties having a substantial interest in a concession are entitled to be consulted and, if necessary, compensated in connexion with any modification of that concession. The GATT imposes no limitation on contracting parties with respect to rates of duty which have not been bound in negotiations with other contracting parties. In practice developing countries have been called upon to make only a small contribution by way of tariff bindings on accession or in subsequent negotiations. As has already been mentioned earlier in chapter III Ghana as a former colony to which the General Agreement has been applied *de facto*, acceded to GATT through «Declaration» and was not obliged to negotiate any accession by way of "fees" and did not undertake any tariff binding obligations. It must also be pointed out that there are separate provisions in Section A of Article XVIII concerning the modification or withdrawal of concessions by developing countries in cases where they consider such action necessary to protect developing industries. While developing countries also are required to negotiate the modification or withdrawal of concessions, it is recognized in Article XVIII that they

1) The earlier date refers to the tripartite preferential arrangement between India, Yugoslavia and Egypt signed on 23rd December 1967 (reproduced in GATT document L/2980) and the latter to the agreement on co-operation originally concluded among 14 developing countries, but later extended to include other interested developing countries.

need to maintain sufficient flexibility in their tariff structure to be able to promote industrial development and the effect of the special provisions of the Article is to make the modification or withdrawal of concessions easier in their case. Article XXXVI moreover states that the developed contracting parties do not expect reciprocity from commitments made by them in trade negotiations to reduce or remove tariff and other barriers to the trade of developing contracting parties¹. The concept of reciprocity in trade negotiations between developed and developing countries has become a major issue not only within the GATT but also generally in economic bargaining between developing and developed countries.

Prohibition of quantitative restrictions

Another basic obligation of GATT is the general prohibition in Article XI of the use of quantitative restrictions. However under the provisions of Articles XII and XVIII countries are permitted in certain defined circumstances to use quantitative restrictions to protect their reserves when in balance-of-payment difficulties. The exercise of this right is defined in precise items in the General Agreement and the country resorting to measures of this sort is under an obligation to consult every year in the case of industrialized countries. A developing country maintaining restrictions in conformity with Article XVIII is required to submit every two years a statement on the nature of its balance-of-payments difficulties and the extent of its restrictions. A consultation is held only when this is considered desirable. Since the imposition of import controls in 1962 Ghana has been subjected to such periodic consultations². The first series of exchange and import control measures were taken in December 1961 and Ghana's first ever consultation³ with the GATT Committee on Balance of Payments took place in May 1962 to be followed by similar consultation every two-years. Before each consultation, the Secretariat, on the basis of information supplied by the consulting country prepares basic documents, outlining the main features of the economy and describing the nature of the balance of payments problem, and the broad features of the regime of restrictions. During the consultations members of the Committee enquire into the fundamental causes of the problems, the nature of the corrective measures being taken and their justifications, their likely

1) One must on the other hand note that the article does not contain any obligation on developed countries to make special concessions to LDC's either. Hence the provisions appear to have only a symbolic rather than a contractual meaning.

2) See GATT document L/1778 for the report on Ghana's first consultations in 1962. Since 1971 direct consultations by some developing countries has been replaced by the submission of a general explanatory statement outlining government policies and measures aimed at redressing the balance of payment deficit.

3) See GATT document L/1778 for the report on Ghana's 1962 consultation ; for the reports of subsequent consultations, see BOP/R/6 - for 1966 the report ; BOP/R/26 - for 1968 report ; BOP/R/53 for the 1971 report and BOP/R/77 for the 1974 report.

duration and success in giving temporary or long lasting relief to the problems under scrutiny and the prospects for their elimination. Members normally take the opportunity to obtain detailed information on aspects of Ghana's trade regime and of the economy in general ; for example during the 1962 consultations Ghana had to explain the nature and the reasons for the series of bilateral trade and payments agreements concluded in the course of 1961 with a number of African and CPE countries. Normally Ghana is expected to assure the Committee that the restrictive measures would not cause undue disruption in the pattern of trade and that they would be applied without discrimination. In conclusion the Committee normally does not give any specific recommendations but limits itself to broad suggestions and expressions of hope for an early elimination of the restrictions. For example at the end of the 1962 consultations the Committee : " expressed the hope that the problems which had led to the reintroduction of import controls would soon be overcome and would thus make it possible for Ghana to revert to its traditional liberal trade policy. The hope was expressed that Ghana would find it possible to implement licensing controls in a manner avoiding disturbances to the normal pattern of trade and development and to reduce its reliance on bilateral arrangements " ¹. Although the suggestions do not have any binding effects, consulting countries are normally expected to give them careful consideration. The very fact that these consultations are held every two years, as long as the restrictions existed should serve a reminder for restraint and moderation in the implementation of further restrictive measures.

In addition to the imposition of quantitative restrictions for balance-of-payments reasons, developing countries may, in specific cases, introduce controls in order to protect new industries when it appears impracticable to resort to other measures of protection authorized under the General Agreement².

Export subsidies

The use of export subsidy is generally frowned upon under the General Agreement, however, the attitude of contracting parties towards it varies with the type of subsidy involved. As far as export subsidies on industrial products are concerned the developed industrial countries have agreed through a declaration, to a complete ban on their use by themselves. Developing countries have so far refused to be bound by this agreement and therefore feel themselves free to use them. In Ghana export subsidies such as the export bonus scheme constitute one of the major instruments of export promotion. It must be pointed out that in the case of both subsidies on manufactures and primary products other contracting parties, under the

1) L/1778 op. ct.

2) Article XVIII : (c) sets forth the procedures and conditions under which this action may be taken.

provisions of Article VI¹, are permitted to levy countervailing duties if subsidized imports cause or threaten material injury to their industries. It must further be emphasized that the subsidization of exports by developing to developed countries in effect implies the subsidization of the consumption of the rich by the poor. On the other hand one must take into account the eventual effect on their foreign exchange earnings and incomes which could result from a major breakthrough on export markets by means of such subsidization. The General Agreement generally seeks to discourage the use of export subsidies on primary products; however where a contracting party resorts to its use it should not be in such a way as to secure for the country concerned a more than equitable share in world trade in the product concerned². Contracting parties are free to grant subsidies other than export subsidies, on the condition that they notify any, which have the direct or indirect effect of increasing exports or reducing imports and that they accept to consult when requested on the possibility of limiting such subsidies.

ASSESSING GHANA'S MEMBERSHIP OF THE GATT

The General Agreement is a treaty and its significance to any particular contracting party depends to a large extent not only on the effect, direct or indirect, of the terms, on the actions and policies of the country concerned, but also on the extent to which the country is prepared to make use of them, while respecting her obligations. As a set of rules, comprising rights and obligations, regulating international trade it is evident that its direct relevance to a country like Ghana depends on the degree of participation in international trade.

Without going into any detailed analysis one can state in the first place that by joining the GATT Ghana has obtained by one stroke a commercial treaty with over eighty³ countries including the worlds biggest trading nations, on terms, most probably, more favourable than is usually possible through bilateral negotiations. This is particularly significant for a newly-independent State like Ghana without the experience and necessary administrative tools for negotiating and implementing an infinity of bilateral agreements. In this context it is necessary to underline the flexibility of GATT's obligations with respect to developing countries already alluded to. Where additional latitude is needed in specific cases the Contracting Parties have made

1) The interpretation of Article VI and modalities of its application have been one of the major controversial issues in the Tokyo Round of negotiations.

2) Article XVI, paragraph 3.

3) At the end of 1975 there were eighty three full contracting parties to the General Agreement, three countries had acceded provisionally while nineteen others applied it on a de facto basis (see BISD 22nd Supplement - February 1976).

See chapter III for the significance of this terms the effect of tariff action of contracting parties on Ghana's exports.

use of the waiver provisions of Article XXV. This system enable countries facing special difficulties to depart from their obligations without losing the benefits accruing to them by their GATT membership. In normal bilateral agreements on the contrary if one country does not observe the terms of the contract, the partner is free to terminate the agreement altogether.

Another advantage accruing from membership of the GATT is the availability of procedures for the settlement of differences in cases where countries feel that their trading interests are being adversely affected by the commercial policies of another country. Developing countries have a much better chance of obtaining a redress in the GATT than they have in bilateral discussions with a country which is more powerful. These particular procedures have been developed in the form of multilateral consultations under Article XXII. The snag is that in practice developing countries have rarely resorted to article XXII consultations for reasons which are not difficult to discern. The basic factor which makes any treaty binding is the possibility for an aggrieved partner either to threaten or take redressive or retaliatory action either in the form of non-fulfilment of obligation, withdrawal or annulment of concessions, and in extreme cases a complete abrogation of the treaty. The ability of an aggrieved partner to resort to such measures depends to a large extent on its bargaining strength. Most developing countries feel themselves in a politically and economically weak bargaining position to engage in a commercial dispute with a major economic power which might turn out to be a major aid donor. In any way they might not have much choice of retaliatory action due often to the feeble nature of their own concessions. In such a situation a developing country can at best join in the consultations initiated by a developed country which might have also been aggrieved.

Other means of redressing grievances are provided for in Article XXIII involving possible investigations by a Panel of Experts and settlement by Contracting Parties who may in serious case authorize the aggrieved contracting party to take retaliatory measures. In normal cases a finding or a recommendation by the Contracting Parties has a very strong influence on the subsequent action taken by the country against which the decision has been taken. Also worth mentioning are the advantages resulting from participation in the multilateral discussion of common trade problems and in the formulation and carrying out of joint programmes by the Contracting Parties. No country feels in isolation because it can rely on the support of other countries having similar interests.

Part IV of the General Agreement

In the above, an attempt has been made to outline some of the advantages a country like Ghana stands to gain from membership of the GATT. The provisions of the General Agreement have been designed to regulate international trade and the more intensive a

member country participates in international trade the more relevant these provisions are bound to become to it. Thus for the individual developing country whose share of the world trade is rather minimal the General Agreement has often been considered as being rather marginal in importance all the more so since most of these countries depend to a large extent on the export of agricultural primary products, a sector which has been relatively unaffected by most of the trade liberalization measures of the past until the Kennedy Round. Thus for countries like Ghana membership of the GATT has more potential advantages than real as trade in manufactures gradually grows. This is a major reason for the accusation that the GATT is a "rich man's club". This accusation lies behind the reason for the adoption of Part IV of the General Agreement in 1965. Part IV commit¹ developed countries to assist the developing countries as a matter of conscious and purposeful effort. It lays down the important new principle that developed countries would not expect developing countries, in the course of trade negotiations, to make reciprocal contributions inconsistent with their individual development, financial and trade needs². Developed countries also agreed that, except when compelling reasons made it impossible, they would refrain from increasing barriers to exports of primary and other products of special interest to developing countries, and would give high priority to reducing existing barriers, including fiscal taxes. The commitments embodied in Part IV have, however, not been regarded as legally binding as the traditional sections of the General Agreement and for a long time a few countries refused to accept it³. The provisions of Part IV represent for developing countries more of an aspiration than concrete benefits especially since many of their rights and obligations are couched in broad general terms.

1) Article XXXVII - *Commitments*

1. The developed contracting parties shall to the fullest extent possible - that is, except when compelling reasons, which may include legal reasons, make it impossible - give effect to the following provisions :

- (a) accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less-developed contracting parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and in their processed forms;
- (b) refrain from introducing, or increasing the incidence of, customs duties or non-tariff import barriers on products currently or potentially of particular export interest to less-developed contracting parties; and
- (c) (i) refrain from imposing new fiscal measures, and
 - (ii) in any adjustments of fiscal policy accord high priority to the reduction and elimination of fiscal measures, which would hamper, or which hamper, significantly the growth of consumption of primary products, in raw or processed form, wholly or mainly produced in the territories of less-developed contracting parties, and which are applied specifically to those products.

2) See also foot-note 7 above.

3) The Protocol introducing Part IV has been in force for all but one major developed contracting party namely France.

Some other criticisms

It appears however that Part IV came too late to erase the feeling of frustration on the part of developing countries, a feeling which has been built up over the years as industrial countries using their greater economic and bargaining power, interpreted, implemented, amended or ignored the rules and regulations in such ways as to effectively discriminate against less developed countries. The principles of non-discrimination (or m.f.n. principle) and of reciprocity until modified by Part IV resulted in a situation where developing countries could not fully participate in negotiations. Even the concession on reciprocity drawn from developed countries under Part IV has been open to conflicting interpretations.

While the developed countries have been negotiating a mutually beneficial liberalization of trade in industrial products they have used every conceivable kind of protectionist device to shield domestic temperate zone agricultural sectors from foreign competition. This protection explicitly discriminates against the less-developed countries since agricultural products predominate in their exports. The absence in the General Agreement of mechanisms for regulating international commodity trade is a major cause of regret for many developing countries like Ghana whose exports are subject to wide fluctuations in prices and earnings.

Safeguard actions

Developing countries also claim that over the years a number of developments, practices and doctrines have emerged within the GATT which have reinforced the feeling that the General Agreement is insensitive to their special problems. The anti-dumping code for example failed to take into consideration the special interests of developing countries. The doctrine of "market disruption" has been employed as a protective device by developed countries who have advanced allegations of "market disruption" as an excuse to resort to the safeguard clauses of article XIX to erect restrictionary controls on import of competitive products from less advanced economies.

There is no lack of examples¹ "safeguard" measures taken by developed countries which directly affect the trade interests of developing countries. Out of about 50 cases of Article XIX actions and other actions of an emergency or temporary nature known to have been applied between the period 1970 and 1975, twenty were directly relevant to the trade interest of developing countries in the sense that there were significant imports from developing countries of the products concerned by the countries taking the actions. The products ranged from agricultural products such as meat, fruits and vegetables, and fish products, to fertilizers, ceramic tableware, cutlery, footwear and textile products not covered by the multifibre agree-

1) See table at page 232 for such examples.

ment. The specific actions mostly took the form of tariff increases or import surtax, quantitative restrictions, state trading, etc... Particularly objectionable has been the tendency for member countries, in view of the strict guidelines on the use of Article XIX, to turn to other articles of the Agreement for justification of their action or even to remedies outside GATT such as "voluntary restraint" agreements and "orderly marketing arrangements". The so-called "voluntary export restraints" forced upon developing countries which have established competitive textile export industries is the most patent example of this tendency.

1) *Examples of Safeguard and Other Emergency Type Measures Affecting Developing Countries*

Contracting Party Applying Action	Product Covered	Type of Measure and Duration	Share of Ldc's in the total import of items by country taking action	GATT Documentary Reference
Australia	Footwear	Temporary quantitative import restrictions (Article XIX action) 1974	20-68 % (1972/73)	L/4099
	Ophthalmic frames, sun-glass frames sun-glasses	Temporary quantitative restrictions (Article XIX action) 1975	19 % (1972/73)	L/4169
EEC	Bovine meat	Quantitative restrictions - temporary emergency action. February 1974 -	55 % (1971)	L/4004
	Table apples	Quantitative restrictions - temporary emergency action. April-June 1970	50 % (1972)	L/3385
	Tomato concentrates	Quantitative restrictions - temporary emergency action. From August 1970	87 % (1972)	L / 4084
	Processed muskrooms	Quantitative restrictions - temporary emergency action. From August 1974	92 % (1971)	L/4084
France	Horse meat	Quantitative restrictions - Article XIX action March 1968-December 1971	48 % (1971)	L/3000, L/4182
Japan	Raw silk	State trading August 1974	43 % (1974)	L/3833/ Add. 13
United States	Sheet glass	Tariff increase - Article XIX action June 1962-January 1974	43 % (1973)	L/1509, L/27430

None of these actions has affected a major export interest of Ghana but the potential for a possible harm exists. Developing countries feel that while escape clause provisions are necessary to prevent real and serious cases of market disruption they should not be used to abort the evolution of the structure of world trade in favour of developing countries in sectors where they have effective or potential competitive advantage. It is in this respect that developing countries advocate that any future reform of the safeguard clauses¹ should incorporate obligations for structural adjustments in the economies of developed countries to allow greater participation of developing countries in sectors where the former are no longer competitive.

Other criticisms

It is also the feeling of many developing countries that while the GATT has played a major role in liberalizing international trade, as long as its field of activities has not been extended to cover such issues of crucial interest to them as export development, commodity price stabilization, and stabilization of export earnings, their interest in this international trade body will remain limited. It must however be pointed out that the fastest growing sector of the trade of LDC's is in manufactured products. It is in this sector that their future trade prospects lie and a more positive attitude on their part to the GATT might yield benefits. For example the liberalization of trade in the single sector of textiles might result in a major rise in exports for the LDC's. The General Agreement has, however, often proved its flexibility in adapting itself to meet new challenges and should be able to do so in the future if the right international atmosphere were to be present. The operation of Part IV, the accommodation of the Generalized System of Preferences and of preferential arrangements among developing countries ; the Long-Term Textile Arrangement followed by the multi-fibre Arrangement

1) In the Tokyo Round of multilateral negotiations one of the most controversial issues has been the attempt to reformulate the existing safeguard rules of the General Agreement. Some of the points on which discussions have centred include : a) the fact that safeguard action is frequently taken outside Article XIX, b) the need for more precise criteria for invocation of the safeguard clause, including the terms "cause serious injury", "threaten serious injury" and "critical circumstances", which are the basic justification for introducing safeguard measures ; c) the possibility of applying safeguards on a selective basis ; d) the need to fix a time limit to safeguard measures and to ensure that they are degressive over a period of time ; e) the need to make the application of such measures contingent upon the introduction of domestic adjustment programme ; f) the desirability of introducing provisions for multilateral surveillance into the GATT safeguard arrangements. Developing countries have insisted that as a general rule differentiated and more favourable treatment should be given them ; that safeguard action should be taken only after consultations and subject to authorization by an appropriate multilateral body ; that actual material injury to domestic production, and not potential injury, must be proven ; that safeguard measures should not be applied in such a manner as to discriminate against imports from developing countries or cause injury to export industries in developing countries ; and that selective application of safeguard measures should be avoided.

Regarding International Trade in Textiles¹ are ample examples of this flexibility. Even then, a more sensitive and dynamic response to new problems and challenges will be needed if it is to continue to play the role of a regulator of world trade in an increasingly competitive world economic system.

UNCTAD

It was partly the developing countries feeling of frustration with the GATT and the absence of an international body with a wider mandate on problems of trade and development especially where they affect developing countries which led to the convocation of the United Nations Conference on Trade and Development in 1964 which has since then become institutionalized with its own secretariat. It was part of the basic ideas behind the convening of this conference that the regulating machinery of international trade needed a fundamental reorientation to make it responsive to the need for (a) a full recognition of the significance of the problem of economic development for world trade ; (b) differentiation between countries of various levels of economic development and of different economic and social systems ; (c) positive and deliberate action to promote exports of developing countries, overcoming the obstacles of agricultural protectionism and industrial discrimination, and providing for preferential treatment and other special measures for aid and encouragement².

While not arrogating to itself the role of regulating international trade the UNCTAD has become the largest forum for discussing international trade problems of all kinds which have bearing on the economic development of developing countries. Its field of activities ranges from trade liberalization, in all its forms, export promotion and development of manufactures and semi-manufactures from developing countries, the transfer of technology, commodity price stabilization, stabilization of export earnings, financing of foreign

1) Ghana was not signatory to the first textile arrangement but became a signatory member of the second on 20th June 1974. The Multifibre Arrangement on Trade in Textiles was negotiated in 1973 and came into force on 1st January 1974 and was to run for 4 years with possibility of renewal. Its main objective is to liberalize world trade in textiles which has been characterized by restrictive measures of all kinds i.e. import quotas, bilateral agreements, export restraints, etc. In order to achieve its objective the Arrangement provides for a standstill on unilateral or bilateral restraints on trade in textiles, except if specifically authorized under the provisions of the Arrangement. The Arrangement also provided for the notification and phasing out of all existing unilateral or bilateral restraints. Unfortunately in order to reflect the realities of world trade and at the same time introduce an element of flexibility, the Agreement permits the introduction of restraints on textile imports, when these are causing market disruption, subject to a number of strict conditions and to multi-lateral surveillance (Textile Surveillance Body). The result of this situation is that trade has tended to be more restrictive than liberal, as developed importing countries continue to make recourse to this safeguard clause.

2) See the Proceeding of the United Nations Conference on Trade and Development. Vol. V, p. 469.

trade, international currency problems, insurance, invisible trade, and shipping. It has become a forum for the formulation of international policies and guidelines for actions, and although its resolutions do lack the legal binding force of international contractual obligations, they can exert a considerable influence in the shaping of national policies. Countries may not feel constrained to implement the resolutions and guidelines of its various bodies but they will hesitate in taking actions which are plainly and deliberately contrary. In tune with one of its objectives of ensuring a stabilization of earnings from the traditional export of primary products it has been playing an active role in arranging international conferences for the negotiation of commodity agreements ; a sterling example being the International Cocoa Agreement of 1972 in whose realization Ghana played a prominent role.

The Generalized System of Preferences (GSP)

The Generalized System of Preferences being operated since 1972 by developed countries in favour of most developing countries is perhaps the most apparent success of UNCTAD. First discussed in GATT in the early sixties it was in UNCTAD that the long debate on the proposals was engaged between developed and developing countries. The system existing at the time of writing was based on unilateral tariff concessions given by individual developed countries¹ including the EEC as a group to most developing countries. The concessions affect most manufactured goods and a number of agricultural products and they range from zero tariff reductions to tariff quotas.

The imperfections in the systems are however many. In the first place, the concessions are voluntary and can be changed when the donor country felt appropriate ; in many cases the concessions offer only marginal improvements on existing tariff situations. Where tariff quotas operate the quotas are often no major improvement on existing trade flows and in most cases are easily exhausted by traditional suppliers. While substantial concessions have been given on manufactured goods, temperate agricultural imports of interest to developing countries are in most cases either excluded from the schemes or have been offered only very-marginal concessions. Moreover an amalgam of very complicated rules of origin appended to the various GSP schemes renders their implementation and administration a nightmare. There is also the fact that the whole system is on a temporary basis and its future will depend on the general evolution of the world economy. It must further be pointed out that with the present network of free trade areas involving some of the major trading nations such as the EFTA ; the EEC, and her association agreements with mediterranean countries, the Lome Convention ; EEC - EFTA free trade agreements ; the significance of the GSP to a number

1) At the time of writing the following developed market economy countries or group of countries were implementing the various GSP's Austria, Canada, the EEC, Sweden, Norway, Finland, Switzerland, New Zealand, and Japan. The GSP of the United States which came into force on 1st January 1976, excluded the member countries of the OPEC.

of developing countries remains very limited. Moreover any general m.f.n. concessions such as those made within the context of multilateral GATT negotiations automatically reduce preferential margins and hence the significance of the GSP. Despite its many imperfections the GSP offers substantial openings in developed markets, in particular, for manufactures. This implies however, that for developing countries like Ghana whose manufactures export sector is rather small the GSP offers potential rather than actual advantages. At its inception in 1972 Ghana stood to gain substantially from the GSP especially with regard to the concessions from the EEC, the Nordic countries and Japan. As far as the developed Commonwealth countries were concerned, Ghana saw some of her preferential margins under the Commonwealth Preferential System either diminished or completely eliminated by the GSP. The significance of the GSP to Ghana has further been reduced by the unilateral duty-free concessions obtained under the Lome Convention in 1975.

THE ROLE OF GHANA IN THE GATT AND UNCTAD

What has been the role of Ghana in these two major institutions of multilateral diplomacy. Basically the membership of a country and its role in institutions of the kind discussed above depends on the importance it accords to its principles and objectives, in other words the extent to which these principles and objectives serve or can be used to support national policies. To this must be added such factors as the country's individual bargaining strength within the organization and the extent to which it can increase it in conjunction with other countries, and the extent to which it can participate directly in the deliberations of the organization.

Ghana's membership in the GATT, as has already been discussed in chapter III was almost an involuntary development from her evolution from a colonial to an independent status, before she could have had the time to evolve her commercial policies. The role of Ghana in the GATT can, so far, be described as that of passive acceptance and active participation. Since her accession she has through her permanent representatives in Geneva actively participated in the activities of the various bodies of the GATT and especially of the Group on Trade in Tropical Products and the Committee on Trade and Development and its preceding Committees. Ghana has, however, until the Tokyo Round, not participated in any of the major tariff negotiations in the GATT. The reason for this has already been discussed in earlier chapters i.e. the relative unimportance accorded to tariffs as a major barrier to the markets of her major exports cocoa and timber products, all the more so as a major part of these exports had preferential access to the Commonwealth market, her undue preoccupation with the problems of commodity price stabilization, and especially her reluctance to negotiate away a major source of revenue. Another factor was the nature of her bargaining strength which, feeble as it vis-à-vis her major trading partners, could not gain

from joint bargaining in association with other developing countries; a phenomenon which is relatively under-developed in the GATT. Moreover until the institution of the GSP and the Tokyo Declaration, the principle of special and differential measures in favour of developing countries had not been widely accepted by developed countries within the GATT framework, thus making most developing countries disinterested in such negotiations.

By the time of the institution of the UNCTAD in 1964 the main objectives of Ghana's trade policies were fairly well defined; the maximization of her export earnings through external price stabilization¹, diversification and promotion of exports, the diversification of import and export markets and regional trade co-operation, issues which together with others such as shipping, financing of international trade, the external debt problems, transfer of technology, receive greater attention in UNCTAD. This, in a way, explains Ghana's relatively more active involvement in the activities of the UNCTAD than of the GATT. The more developed level of group action in the UNCTAD facilitates participation in its activities by individual developing countries; this situation is enhanced by the fact that the UNCTAD is essentially a political forum reflecting faithfully the political configuration of the United Nations. Moreover, as has already been stated earlier in this chapter, the UNCTAD is a forum for the formulation of broad policies and recommendations without the power to negotiate binding rules and commitments unlike the GATT, a situation which creates less inhibition on developing countries from expressing their views and participating in discussions.

Group action may be considered as being conducive to confrontations. On the contrary, it may facilitate the reaching of agreements since normally the positions presented by the various groups represent concretized viewpoints of a number of countries. A conference or meeting may thus have to reconcile only a few agreed views instead of the conflicting views of a large number of delegations. Some large groups such as the UNCTAD group of "77" often embrace a number sub and minor groups within which bargaining and negotiations are necessary before a consensus can emerge. In such intra-group politics the views of even small nations can prove to be quite influential. The main groupings, in the framework of the UNCTAD, of direct interest to Ghana are the so-called group of "77" which covers most, if not all, of the developing countries and the more regional African group. To these could be added the ACP group and the ECOWAS group which might be necessary to coordinate action among the member states on issues affecting them.

The role which any individual country can play in these bodies depends, among other factors, on the extent to which she can phy-

1) As has been pointed out in chapter VI Ghana, as the leading producer and exporter of cocoa, played a leading role in the negotiation of the International Cocoa Agreement under the auspices of the UNCTAD.

sically participate in their deliberations and subsequently on the level of diplomatic representation supported by the relevant home ministries and other institutions and specialized bodies which supply experts periodically to attend meetings. Ministerial briefings have often left much to be desired sometimes due to under-staffing, cumber-someness in policy making, lack of effective coordination among the relevant ministries or agencies and bad communication ; in such a situation much depends upon the diplomatic representative at post. Ghana's permanent representatives to these bodies have exclusively been highly experienced career diplomats who enjoy a high degree of discretionary powers in matters of policy decisions. On the other hand the financial and manpower burden involved in maintaining a highly staffed diplomatic mission is such that Ghana ; like most developing countries, can only boast of barely functional missions and is thus often highly handicapped in its participation in meetings and negotiations which often demand the presence of experts for considerable lengths of time. The fact that at the time of writing representatives of Ghana had held the presidency of highest body of the UNCTAD, the Trade and Development Board, on two occasions, in a way reflects the importance the country attaches to this institution and the active role of its representatives.

SECTION "B"

OTHER INTERNATIONAL ORGANIZATIONS

A number of other international bodies both world-wide and regional in their membership have come to influence the commercial policies of their member countries directly or indirectly. Let us take the case of the Food and Agricultural Organization (FAO) of the United Nations. Its actions on the disposal of commodity surpluses and market stabilization are two specific ways in which it influences commercial policies of developing countries. It has laid down procedures for limiting, timing and channelling subsidized emergency food exports mostly from industrialized countries so that they cause as little commercial disturbance as possible on the world market especially where legitimate export trade of less-developed countries are concerned. The FAO has also acted as a forum for discussions and consultations on problem facing trade in agricultural commodities, in particular problems of access to markets and pricing. In pursuit of its pricing policies, stabilization of world markets figure predominantly ; in this respect it has been a traditional advocate of commodity agreements and has provided a forum for negotiations leading to some such agreements.

The regional Economic Commissions of the United Nations and in the particular context of this study, the Economic Commission for Africa, have provided frameworks for actions and initiatives aimed at promoting intra-African trade, and regional economic co-operation and integration. The ECA has, as concrete examples, helped in preparing the ground rules for uniform customs administration and transit trade in certain regions of Africa, and created a trade promotion and market research units for assisting African exports trade. Its active initiative in encouraging monetary co-operation among African countries led in 1975 to the creation of a West African clearing arrangement¹. The signing of the Lagos Treaty discussed above, though only a beginning, crowns a long effort in which the ECA played an active and pioneering role.

The International Monetary Fund

Exchange control regulations constitute one of the most widely used weapons for correcting balance-of-payments deficits in developing countries. The use of exchange restrictions is however under the close control of the IMF which was set up to provide a framework of rules for the international monetary system. This framework is supported by a machinery for consultation and collaboration on international monetary problems. Its main tool of operation is a pool of financial resources that could be made available to member countries temporarily so that balance-of-

1) See Chapter 8 above.

payments maladjustments could be overcome without resorting to measures that might impair either national or international prosperity. By helping to regulate the international monetary system, promote a liberal multilateral payments system and to eliminate foreign exchange restrictions the IMF hopes to "facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income, and to the development of the productive resources of all members as primary objectives of economic policy"¹.

In Ghana where exchange restrictions supported by direct controls on imports as a means of correcting balance-of-payments deficits have long been preferred to monetary measures, the effects of the Funds' operations on commercial policy are apparent. In the first place the Fund's code of conduct on the use of exchange restrictions imposes restraints similar to those of the GATT on her resort to such instruments of policy. Under Article XIV, Section 4, members are required to consult with the Fund and justify the continuation of its reliance on exchange restrictions. This obligation is of course a counterpart to the right to the use of the Funds' resources and technical assistance in various fields of national economic life especially in matters of commercial, credit, fiscal and foreign exchange policies. One specific example of such technical assistance has been the attempt at a rational restructuring of the tariffs of some developing countries to conform with the needs of their economic development. In recent years, stand-by arrangements have been the general means of providing assistance to members. The availability of these arrangements are based on the assurances that the member will implement an economic programme designed to achieve certain economic objectives including, in particular, the strengthening of its balance-of-payments. In the process of discussing the economic programmes, their internal consistency, and the institutional framework within which they would be implemented the staff of the IMF has a unique opportunity to assist members in their policy formulation and in making innovations of an institutional or policy character.

The Compensatory Financing Scheme of the IMF established in 1963 is aimed at helping members², mostly exporters of primary

1) Article I (ii) of the Articles of Agreement of the IMF.

2) For a long time this facility was rarely used largely because of the stringent conditions and limitations attached to its use; for example in 1969 only 12.1 million SDR was drawn on it, 9 million in 1970 and a paltry 2 million in 1971. Since 1975 the scope for its use has been largely widened. In 1975/76 purchases under the compensatory financing facility amounted to 828 million SDR. Basically members having a balance of payments need may draw on this facility in compensation for export shortfalls, provided that the Fund is satisfied that the shortfall is a short-term one, largely attributable to circumstances beyond the control of the member and that the member will cooperate with the Fund in an effort to find appropriate solutions for any balance of payments difficulties. According to changes introduced in 1975 member countries can draw up to 50 per cent of the members' quota in

products to cushion the impact of temporary shortfalls in export earnings¹. Another measure designed principally for primary producing countries is the recent establishment of a new facility for the financing of international buffer stocks. Under this facility, a member may use the Fund's resources to finance its contribution to international buffer stocks under commodity agreements that meet appropriate criteria. Together these two complementary facilities permit a member to draw on the Fund up to 75 per cent² of its quota, in addition to the regular facilities for the use of the Fund's resources, and provide an important contribution towards easing problems arising from undue short-term fluctuations in markets for primary products.

In 1974 the Fund created a temporary Oil Facility to help developing countries who are in serious foreign exchange difficulties due to the quadrupling of oil prices in 1973. A number of other initiatives have been made by the Fund since 1973 to accord more help to developing countries especially with regard to their debt problems. These include a new "subsidy account" to help reduce the interest on loans made under the Funds' oil facility, direct distribution to developing countries of part of the profit from the sale of one-sixth of the IMF's gold at free market prices, a new Trust Fund, financed by the remaining profits of the IMF gold sale to help the poorer countries' balance of payments, an expansion of the existing compensatory financing facility, and a re-evaluation of the Fund's rules for borrowing, to allow greater credit to needy countries. These initiatives reflect the Fund's growing flexibility in dealing with the problems of developing countries.

Commodity Bodies

Commodity price stabilization, the rationalization of supply and utilization of primary commodities have, since the second world-war, provided another sphere of activity of a multilateral nature. Ghana's membership of a number of international commodity bodies provide her and other interested countries with instruments for international consultations, negotiations and co-operation on problems of common interest where purely national initiatives have been or might be ineffective. Some of these international bodies are of a purely consultative nature; some take decisions or conclude agreements with binding effect on its member countries; some are regional in membership

any 12 month period and in total not more than 75 per cent of quota instead of 25 and 50 per cent respectively, before then. The 1975 changes also liberalized the basis for the calculation of export shortfalls. (See Annual Report 1976 of the IMF).

1) Ghana has drawn only once in December 1966 on the Compensatory Financing Facility to the tune of 17.25 million dollars. At the end of 1975 Ghana quota stood at 101.9 million SDR with a possible maximum of SDR 106 million fixed at the Sixth General Review of Quotas in 1975.

2) This limit was removed as a result of changes introduced in 1975.

while others are world-wide depending on the product in question. Ghana is a member among others, of the international Coffee Organization (ICO), the Cocoa Producers Alliance (CPA), since 1973 the International Cocoa Organization (ICCO), a body in whose creation Ghana played a major role and of the International Bauxite Association (IBA) in 1975.

The problems of commodity price stabilization have already been discussed in previous chapters and are not the subject of discussion in this section. The intention here is to discuss commodity bodies as instruments of commercial policy. Those of a more formal nature capable of concluding legally binding conventions and agreements such as the ICO and ICCO mentioned above, try to control not only the prices of commodities, but also exportable quantities through quota stipulations, direction of trade especially during periods of short supplies, uses to which the commodities are to be put, quality controls and sometimes even sale techniques. Member countries thus forego a large measure of their sovereign control over their policies in favour of a multilateral approach to problems. In less formal organizations such as the CPA the orientation is more towards influencing official action and policies, in the absence of legally binding decisions, rather than replacing national commercial policy decisions. Even in such less formal bodies, definite decisions can be taken which directly affect executive action such as cocoa sales techniques in the case of the CPA ; for example whether and when cocoa has to be withdrawn or put on the market.

On the more regional level, Ghana was a founding member in May 1975 of an African Timber Producers Association, created to defend the prices of their exports, for example, by avoiding competitive price under-cutting. Other commodity bodies are bound to be created as long as the problems, of price fluctuations, fluctuations in the earnings from commodity exports, scarcities and security of supplies continue to preoccupy producers and consumers. It is, and will be incumbent on individual producers to define their own national policies having in mind the overall global problems confronting the commodity concerned and analyse to what extent multilateral approaches such as discussed above can aid in their implementation. Where this is not done, blind adherence to commodity bodies, especially commodity cartels might often work against a country's proper national interests, as happened with the experiment of the cocoa producers alliance in 1964, discussed in chapter VI.

Table I

Structure and Evolution of Ghana's Export Trade with the EEC - 1970/73 (in million cedis)

Main Exports ³	1970			1971			1972			1973		
	World	EEC ¹	UK	World	EEC ¹	UK	World	EEC ¹	UK	World	EEC ²	UK
Export	441.7	111.0 (25.5)%	80.6 (18.5)%	345.4	93.6 (15.4)%	52.5 (15.4)%	514.0	135.9 (26.4)%	90.4 (17.6)%	660.1	298.2 (45.2)%	120.4 (18.2)%
Import	419.1	91.3 (21.8)%	98.6 (23.6)%	442.3	105.3 (23.8)%	110.1 (24.9)%	392.8	93.8 (23.9)%	60.7 (15.4)%	523.3	225.5 (43.1)%	86.2 (16.5)%
Fruit juices	0.8	-	0.8	0.9	-	0.9	0.97	-	0.97	1.17	1.16	1.16
Coffee, green or roasted	2.43	-	1.11	2.3	-	1.4	2.19	-	1.55	2.83	2.18	2.18
Coffee extracts, essences	0.79	-	0.54	0.23	-	-	1.2	-	0.86	-	-	-
Cocoa beans, raw, roasted	300.4	72.6	26.3	214.5	66.4	14.6	289.1	80.2	31.4	344.87	126.67	38.91
Cocoa, butter, paste and cake	31.1	6.2	13.97	27.8	2.8	7.8	38.9	2.4	14.3	52.22	22.93	15.77
Oilseeds and nuts, etc.	-	-	-	0.6	-	0.3	0.77	-	-	0.79	-	-
Logs, sawn and veneer	20.3	11.1	2.4	20.6	12.8	2.5	42.5	30.40	3.8	88.82	68.36	9.56
Lumber, shaped	17.1	3.5	8.1	12.2	2.4	6.2	21.17	3.43	12.5	41.76	35.66	24.94
Veneer sheets	ng	ng	ng	0.2	0.1	-	0.21	0.1	-	0.74	0.71	0.34
Plywood	1.1	-	0.97	1.8	0.2	1.4	2.92	0.16	2.42	11.41	11.10	9.24
Industrial diamonds	14.5	3.1	10.3	11.7	3.6	8.2	18.64	9.51	9.13	13.06	11.84	8.15
Bauxite	2.0	0.2	1.77	2.3	0.2	1.6	2.68	-	1.79	2.57	2.08	1.60
Manganese ore and concentrate	7.2	0.5	1.1	6.6	0.5	0.2	10.1	0.67	-	7.31	0.87	0.58
Unwrought aluminium alloy ⁴	31.9	12.4	11.1	29.7	1.7	5.3	56.86	4.65	6.70	46.14	9.27	5.88
Residual fuel oils	0.6	0.1	-	1.6	0.9	-	3.31	2.47	-	4.15	0.30	-

1) EEC : The Six (France, Belgium, Italy, Luxembourg, Netherlands, F.R. Germany)

2) EEC : The Nine or enlarged EEC including Great Britain, Denmark, Ireland.

3) Gold exports are excluded from the commodity break-up.

4) This commodity is not considered a domestic export product.

Source : *United Nations Commodity Trade Statistics, 1970-1973.**Yearbook of International Trade Statistics 1974, Volume 1.*

SECTION "C"

REGIONAL GROUPINGS :

GHANA AND THE EUROPEAN ECONOMIC COMMUNITY

In the preceding chapter the implications of regional groupings in Africa and more specifically in West Africa for Ghana's commercial policy were discussed ; in this section the attention is focussed on Ghana's relations with similar groupings in Europe. Among the postwar regional economic groupings in Europe the one which has had the most profound impact on the evolution of international trade relations is the European Economic Community. The EFTA is claimed¹ to have been more efficient in promoting economic integration among its member countries than the EEC but it is the latter with its common external tariff system, its common agricultural policies and its extensive network of association and special trade agreements with a large number of third countries which has had the greater impact on the pattern and direction of international trade during the last two decades. The creation of the EEC gave a pioneering impetus to the creation of similar regional groupings in Latin America, the Carribean, Middle East and Africa. The main emphasis in this section will be to analyse the evolution of Ghana's relationships with and policies towards the EEC and the ways in which the latter is influencing and can influence her commercial policies.

As the single largest trading power in the world and the most important market for Ghana's exports the policies and actions of the EEC are of primary interest to her. To a large extent the ability of a developing country to increase its participation in the international economy depends not only on its own policies but also, to a large extent, on the policies pursued by her major trading partners, especially when such policies result in a uniform approach by a number of such countries.

Ghana's relationships with the EEC which have followed an interesting evolution have been closely influenced by an interaction of political and economic factors. On her accession to independence in 1957 a year after the signature of the Treaty of Rome, Ghana's attitude towards the EEC was one of open aversion. Ghana, which under Nkrumah has declared herself a champion of the African struggle from colonial rule saw in the association agreement between the EEC and certain colonial african countries (under Part IV of the Treaty of Rome and its implementing Convention) a neo-colonialist ploy for the maintenance of Europe's colonial domination of Africa, a criticism which was maintained even after the associated colonial

1) For a support of this thesis, see " The Essentials of Economic Integration " " Lessons of the EFTA Experience " - by Victoria Curzon. Trade Policy Research Centre London 1974.

territories had attained their independence in 1960-62¹. The specific arguments marshalled by Nkrumah were numerous and varied. To him the economic attachment of these African countries to Europe constituted a barrier to the move towards greater economic and political unity among African countries and a perpetuation, by economic means, of the many artificial barriers imposed on Africa by the European Colonial powers². No attempt at building a common market among African states had the slightest chance of success so long a group of states maintained a free trade system with the EEC. The discriminatory tariff arrangements of the EEC would deepen the division between the associated states on the one hand and the non-associated states on the other, as these groups of states competed for the limited markets for their products, the result of which would be to drive their prices down. Even agreed African arrangements for the maintenance of common selling policies for certain raw materials could not be upheld since associated states would be obliged to keep to the special price system established by the EEC³. Any form of economic union negotiated between the industrialized states of Europe and the newly emergent countries of Africa was bound to retard the industrialization of the latter since their nascent industries could not compete with imports from European countries nor on European markets, thus perpetuating their role as sources of cheap raw materials and as protected markets for European manufactures. This argument tied in with Myrdal's general argument that "a quite normal result of unhampered trade between two countries, of which one is industrialized and the other less developed, is the initiation of a cumulative process towards the impoverishment and stagnation of the latter"⁴. With regard to the economic aid accorded the African states, Nkrumah's arguments were that not only was it inadequate to

1) The "special relationship" association arrangement was replaced on July 20, 1963 by the first Association Convention of Yaounde which established a system of free-trade areas between the EEC and each of the eighteen associated African and Malagasy states.

2) The main arguments of Nkrumah are succinctly summarized by the following quotation in his book "Africa Must Unite" (International Publishers Co. Inc. 1963) p. 181. See also pages 161-164 and 180-183.

"As far as Ghana is concerned, we do not oppose any arrangement which the nations of Europe may wish to make among themselves to seek greater freedom of trade within Europe; but we are most decidedly and strongly opposed to any arrangement which uses the unification of Western Europe as a cloak for perpetuating colonial privileges in Africa. We therefore naturally protest against any economic or political grouping of European powers which seeks to exert political and economic pressures upon the newly emergent countries of Africa, or which discriminates against the trade of those countries which are not willing to participate in these exclusive and unfair arrangements. The operation of the European Economic Community, as at present conceived, will not only discriminate against Ghana and other independent states of Africa economically, but what is more important, it will perpetuate by economic means the many artificial barriers which were imposed on Africa by the European colonial powers".

3) This was a reference to the French system of guaranteeing the prices of primary agricultural commodities, often above world market prices. Part of this financial burden was taken over by the EEC under the First Yaounde Convention.

4) See "Economic Theory and Under-Developed Regions" - by Gunnar Myrdal (published by Gerard Duckworth - 1957).

compensate them for their losses in revenue consequent to the liberalization of imports and to the low commodity prices but it was not disinterested, as it was often tied to conditions meant to serve the interests of the donors. It was also argued elsewhere that the virtual concentration of aid in favour of the associated states meant less aid for other developing countries. As the years passed by, some available statistical evidence came to strengthen Nkrumah in his aversion to the association of some African states to the EEC, for it showed that there had been no appreciable growth in trade between the two groups ; on the other hand some non associated developing countries including Ghana have had a faster growth in their trade with the EEC, as they reoriented the direction of their trade, for commercial and political reasons especially in the immediate post-independence period. Similar operations by the associated states immediately after independence, in fact, often meant a fall in the share of the European Common Market in their trade.

By the time of the coming into force of the first Yaounde Convention in July 1963, Ghana's attitude towards the EEC had already begun to mellow. This was partly due to the creation in May 1963 of the Organization of African Unity. Article 9 of the Yaounde Convention had also come to confirm the compatibility of the status of the associated states with the creation of regional and continental wide groupings. The approaches made by Nigeria around 1963¹ for an association subsequent, partly, to Britain's attempt to gain accession were another factor contributing to the gradual change in Ghana's attitude. The overthrow in January 1966 of the Nkrumah government paved the way for a reappraisal of Ghana's policy towards the EEC, however, not even the signature in July 1966 of an Association Agreement between the EEC and Nigeria and of a similar agreement in 1968 (Arusha Convention) with Kenya, Uganda and Tanzania, led to a quick change in Ghana's policy. This situation might have been created more by an absence of clearly defined policy caused by the unstable political situation at home than by any other factor. It must also be added that with the EEC accounting for just about 20-25 per cent of Ghana's export market, an association with it still did not constitute an attractive proposition in view of the reciprocal concessions Ghana might have been obliged to offer. Meanwhile the multi-lateral tariff negotiations within the GATT had resulted in the gradual erosion of some of the tariff preferences enjoyed by the associated states. The coming into power in October 1969 of the Busia government with a distinctly liberal economy policy marked a turning point in the evolution of Ghana's attitude towards the EEC, an evolution which was hastened by the resumption² of the negotiations for Britain's accession to the EEC. However even by the time of the signa-

1) In a 1963 Declaration of Intent the EEC declared itself willing to extend the Yaounde Association Agreement, or other similar instrument, to other countries having an " economic structure and production " comparable with the " Yaounde " States.

2) The green light for the resumption of the negotiations was given on December 2, 1969 at the Summit meeting of the Six at The Hague.

ture of the British Treaty of Accession on 22 January 1972, no definite policy had been adopted as to the future possible relationship between Ghana and the enlarged EEC ; but it was apparent that it was only a question of time for the decision to be taken. The main question with which the nation was faced was whether she could afford not to seek a protected access to a regional market which now represented about 45 per cent of her total export market especially when her competitors were benefit from such an access (see Table I).

Options for association

Meanwhile, the EEC had, as a factor¹ in the re-negotiation for Britain's accession engaged itself to offer to the African, Carribean and Pacific states who where beneficiaries of British Commonwealth preferential system and stood to lose such preferences eventually on Britain's accession to the Common Market, the possibilities of establishing some form of relationship with it. A similar offer was made to a number of other African countries namely, Ethiopia, Liberia, Sudan, and Guinea, who had so far not had any formal relationship with the EEC. On the other hand the Asian commonwealth countries were excluded from any such consideration. The possibilities offered to the " associable " states were spelled out in the Treaty of Accession as follows (a) participation in the Convention of Association which upon the expiry of the Convention of Association signed on 29 July 1969 (Yaounde Convention), would govern relations between the Community and the Associated African and Malagasy States which signed the latter Convention ; (b) the conclusion of one or more special conventions of Association on the basis of Article 238 of the EEC Treaty comprising reciprocal rights and obligations, particularly in the field of trade (i.e. Arusha Convention) ; (c) the conclusion of trade agreements with a view to facilitating and developing trade between the Community and those countries².

In anticipation of the acceptance, by the Commonwealth associables, of the offer by the EEC, the 19 associated countries under the Yaounde Convention decided at a meeting at Nouakchott in April 1972 to take part, with the Commonwealth in the forthcoming negotiations. At this time the attitude of Ghana and most of the " Commonwealth associables " was hesitant, however it was apparent that Ghana preferred a multilateral approach with all the advantages of joint and bloc-to-bloc bargaining to unilateral negotiations. However, a year of studies and discussions was to pass before the form of the future negotiations became clearer.

For Ghana any possible relationship with the EEC in which her special interests could be guaranteed had to be considered within the

1) See part i (2) of Protocol 22 of the Treaty of Accession.

2) At the end of 1975 the Community had signed such trade agreements with 13 countries i.e. Argentina, Bangladesh, Brazil, Egypt, India, Indonesia, Lebanon, Pakistan, Philippines, Sri-Lanka, Thailand, Uruguay and Yugoslavia.

wider context of changing international trade relations reflected in the following ; gradual acceptance of the principles of preferential treatment for the products of developing countries in the markets of developed countries and of non-reciprocity in commercial bargaining between the developed and developing countries, principles enshrined in the institution of the GSP ; possibilities offered by the multilateral trade negotiations withing the GATT ; the growing international awareness of the importance of an equitable trade in primary products which would guarantee on the one hand stable and remunerative prices for producers and, on the other, adequate and constant supplies to consumers. It was also the view of Ghana and many of the associables that the nature of any future relationship with the EEC should not be such as to compromise their relations with third countries or tie their hands in this regard.

The option of the Yaounde type Convention with its trade, aid and institutional provisions appeared to offer a more flexible instrument for the sort of negotiations which could accommodate the varied interests of the heterogenous group of countries involved. However it was a widely felt view among the "associables" that the Yaounde model could only serve as the basis for negotiations and that the eventual agreement had to be drastically different. A combination of factors led finally to the acceptance by the associate countries, especially the African countries, of the offer to negotiate an agreement on the basis of the Yaounde Convention.

In the first place the memorandum which accompanied the offer contained proposals which demonstrated the readiness of the EEC to accommodate the general desire for a framework for a new relationship between developing countries and the EEC, especially the proposals on a scheme for commodity export earnings stabilization. Another major factor was the prospect which the negotiations offered especially to African states for strengthening the fabric of African unity ; the prospect of having all the members of the OAU in a single grouping vis-à-vis a major trading block was an opportunity not to be missed, for not only would it increase their bargaining power it could also remove a source of discrimination between the associated and associate countries, it would provide a framework for discussing and adopting common policies towards the EEC and generally strengthen solidarity among them. It must be also be pointed out that the EEC itself did encourage a common approach to the negotiations in order to avoid the necessity of concluding numerous separate agreements. Another factor was the role played by the Yaounde Associated states in actively welcoming joint negotiations, following the Nouakchott Decision¹ of April 1972, although still sceptical about the attitude of the commonwealth countries, and in spite of the prospect of admitting more competitors into their hitherto sheltered export market. This last factor was to be compensated for by a preferential access to the British market.

1) At a meeting of the 19 Associated states at Nouakchott in April 1972 it was decided to participate with the Commonwealth in the forthcoming negotiations for the enlargement of the Association.

Main issues in negotiations

In May 1973 the trade ministers of the African countries held a meeting at Abidjan where, for the first time, they declared their interest in having a bloc-to-bloc negotiation with the EEC. A fortnight later this was confirmed by the OAU summit meeting at Addis Abeba. Formal negotiations began in Brussels in July 1973 and from then on it was a race against time to reach an agreement by the time of the expiration of the Yaounde and Arusha Conventions on 31 January 1975. The cardinal issues and problems on which the negotiations were centred were, trade co-operation and especially whether or not there should be full reciprocity in concessions; the export proceeds stabilization scheme, financial aid, industrial co-operation, and the issue of outlining special treatment for a number of agricultural products "analogous" to those produced by some EEC countries. The negotiations were held against the background, on the one hand, of conflicting political and economic interests among the Nine, especially the former major colonial powers each of which wanted to appear to champion the cause of her former colonies which still constituted, for them, zones of influence, and on the other the immense problem of reconciling the interests and views of the ACP countries with widely varying economic interests, political background and historical experience. While the latter problem looked so formidable it was to a large extent simplified by the fact that the bulk of the forty-six ACP countries¹ belonged to one continent and to two main preferential systems, the Yaounde Convention and the Commonwealth preferential systems; hence the main issue was that of reconciling the interests of these two preferential blocs. After eighteen arduous months, agreement was reached on 1st February 1975 on the final version of what was to constitute the "Convention of Lomé between the EEC and the ACP" when it was formally signed on 28 February. Even the final name of the agreement constituted a concession to those countries which wanted to eliminate any political connotation which the term "association" engendered.

LOME CONVENTION

Like its predecessor, the Lomé Convention is more of a trade and economic co-operation agreement than a simple commercial trading convention but, as has been pointed out above, it differs substantially from the Yaoundé Convention on the basis of its incorporation of three major new ideas which will be discussed later in greater details,

1) The original ACP countries comprise the following :

Africa : Botswana, Burundi, Cameroon, Central African Empire, Chad, Congo, Ivory Coast, Ethiopia, Dahomey (Benin), Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Equatorial Guinea, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritius, Mauritania, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somali, Sudan, Swaziland, Tanzania, Togo, Uganda, Upper Volta, Zaire, Zambia.

Caribbean : Bahamas, Barbados, Grenada, Guyana, Jamaica, Trinidad and Tobago.

Pacific States : Fidji, Western Samoa, Tonga.

Tariff Structure for Selected Ghanaian Exports to the United Kingdom and the EEC

BTN	09.01A	MFN Tariff (1972)	United Kingdom (As at December 1972)		Enlarged EEC (As at December 1974)		Lomé Convention
			MFN Tariff (1972)	GSP	C.E.T. (MFN)	GSP	
			(i) Roasted or ground £0.3150/cwt (i) Free £0.2350/cwt (ii) £0.2350/cwt	CP	(i) Unroasted (a) Not freed of caffeine 7 % (b) Freed of caffeine 13 % (i) Roasted (a) Not freed of caffeine 15 % (b) Freed of caffeine 18 %	n	
			£2/cwt (on the total dry weight)	£1.75/cwt		9 %	
21.02		Coffee, essences and extracts, etc...					
A.B.							
18.01		Cocoa beans, raw, roasted	Free	Free	5.4 %	n	Free
18.03		Cocoa paste, - cake	"	"	15 %	n	Free
18.04		Cocoa butter	"	"	12 %	8 %	Free
18.05		Cocoa powder, unsweetened	"	"	16 %	n	Free
18.06		Chocolate and other food preparations including cocoa	1	"	10 % + vc; 12 % + vc; 27 % + ads ⁶ 15 - 50 % + 18 % + ads ⁶	(5 % + vc) ⁷ 9 % - 19 %; 1, 8	Free
20.07		Fruit juices	0-18 % ²	Free ³	Free	Free	Free
26.01B		Bauxite	Free	Free	"	"	"
K							
44.03		Manganese ore, concentrate	"	"	"	"	"
		Wood, sawn, sawn veneer and logs (tropical)	Free 4 %	"	"	"	"
44.04		Wood, roughly squared (tropical)	Free 4 %	"	"	"	"
44.05		Sawn, lumber (tropical)	Free 4-6 %	"	"	"	"
44.13		Wood worked, e.e. blocks, strips, (tropical)	5 %; 15 %	"	"	"	"
44.14		Veneer sheets	Free; 5 %	"	5 %	"	"
44.15		Plywood	5 %; 10 %	"	7 %	"	"
71.02A		Industrial diamonds	Free 10 %	"	13 %	Free (Quota) ¹⁰	"
76.01A		Unwrought aluminium alloys	Free 5 %	"	Free	Free	"
					7 %	"	"
GSP : Generalized Systems of Preferences.			C.E.T. : Common External Tariff.		vc : Variable Component. L : Levies. n : no concession.		
1) : A. Chocolate milk crumb - £0.3000/cwt			2) : 20.07 Fruit juices (including grape must) and vegetable juices, whether or not containing added sugar, but unfermented and not containing spirit :				
B. Cocoa powder with added sweetening matter - £0.2500/cwt			A. Citrus fruit juices :				
C. Other :			1. Grapefruit juice : orange, lemon, clementine, mandarin or tangerine juice whether containing the detached cells of the fruit or not :				
(i) Consisting wholly of cocoa and one or more of the following :			(a) Not containing more than 20 per cent by weight of added sweetening matter				
added sweetening matter, milk, coffee, chicory, salt, vanilla, vanillin and lecithin - £0.2000/cwt			(b) Other :				
(ii) Other - £0.2000/cwt, plus in addition to any revenue duty - 10 %			2. Other :				
3) : 20.07 A(1)(b), A(2), B, D : Free			(a) Not containing more than 20 per cent by weight of added sweetening matter				
4) : Subject to a quota			(b) Other :				
5) : Duty rate reduced to 4 % (suspension) for an indefinite period			B. Pineapple juice ; tomato juice				
6) : The Community reserves the right to charge, over and above the bound duty an additional duty on sugar (ads) corresponding to the duty payable on imported sugar and applicable to the quantity of various sugars (calculated as sucrose) contained in this product in excess of the content of X % by weight.			C. Apple juice ; blackcurrant juice ; pear juice				
7) : Refers to cocoa powder not otherwise sweetened than by the addition of sucrose.			D. Other				
8) : A levy is charged on products with an added sugar content exceeding 30 % by weight.							
9) : According to the concessions given on products falling within the Common Agricultural Policy, Fruit juices are exempt from duty. In addition, there is an abolition of the additional duty on sugar for preserves and juices, of pineapple; of mixtures of pineapple, pawpaw and pineapple. In addition, there is an abolition of the additional duty on sugar for preserves of grapefruit.							
10) : On the exhaustion of the duty-free quota the CEF applies.							

namely the principle of free access without reciprocity to the European market for ACP exports, the establishment of an export receipts stabilization scheme and the institution of a framework for industrial and technological co-operation aimed at promoting a better international division of labour on lines advantageous to the ACP. The substantive part of the Convention covers six main sections, on : (a) trade co-operation ; (b) commodity export receipts stabilization ; (c) industrial co-operation ; (d) financial and technical co-operation ; (e) provisions relating to establishment, services, payments and capital movements ; and (f) institutions of the Convention. Attention in this paper will be focussed mainly on the first four sections.

Access to markets

The provisions of Section one specify that goods originating from ACP countries shall have access to the Community market free of customs duty and taxes of equivalent effect and without being subject to quotas or other quantitative restrictions. One area of exception to the rule of free and unlimited access is concerned with EEC imports of certain agricultural produce coming directly or indirectly under the common agricultural policy¹. The Community has however undertaken to import such products from the ACP countries on more favourable terms than are applicable to imports from other countries.

The principle of non-reciprocity in concessions is enshrined in article 7 which states that " in view of their present development needs, the ACP states shall not be required, for the duration of this Convention, to assume, in respect of imports or products originating in the Community, obligations corresponding to the commitments entered into by the Community in respect of imports of the products originating in the ACP States, under this Chapter ". The incorporation of the principle of non-reciprocity makes the EEC/ACP trading arrangement a purely preferential trading system by which the EEC, because of its different level of development has foregone the right of free access to the market of its trading partners, unlike the arrangement under the Yaounde Convention which established a series of free-trade areas between the EEC and each of the Associated countries. A certain element of reciprocity in obligations is however implied in the commitment undertaken by the ACP, again under Article 7, to grant the EEC m.f.n. treatment and not to discriminate between Member States of the EEC. The principle of reciprocity as reflected in the granting of reverse preference by the Associated countries under the Yaounde Convention has hitherto been strongly defended by the EEC and the Associated states as reflecting their desire to

1) The products concerned, of interest to the ACP countries are sugar, beef, rum, bananas, cutflower, citrus, canned fruit, certain fresh vegetables, fishery products, maize rice and certain cereal products, and tobacco. The regimes under which these products were to be imported into the EEC were agreed on, on case by case basis and ranged from tariff quotas to reduction of or removal of levies. In the case of sugar, rum and meat the ACP countries insisted and obtained special protocol formalizing trade with the EEC.

comply with their international obligations especially under article XXIV of the GATT¹. While this argument is legally admissible the reverse preferential arrangement has been frowned upon by a number of developed countries especially the United States which considered it discriminatory against them. During the EEC/ACP negotiations the "associables" especially those of the Commonwealth argued, among other things, that reverse preferences no longer reflected international thinking on the nature of the trade relations between developed and developing countries as embodied in Part IV of the GATT and reflected in the Generalized System of Preferences sponsored by UNCTAD, and by resolutions adopted in various international fora. Another defence of the granting of reverse preferences, put up by some of the Associated states was that it established a relationship of sovereign equality between them and the EEC, and not of client states. While politically attractive this defence seems to overlook the stark reality of the vast difference in the level of development between the EEC and the Associated states and the economic argument that any free-trade systems between the regions vastly different in their level of development is bound to be disadvantageous to the weaker partners². In this debate on reverse preferences in connexion with the ACP negotiations, one should also not overlook the fact that reverse preferences have been an essential feature of the trade relations between France and the former colonies which made up the bulk of the Associated states, while they were absent in the trade between Britain and some of her former colonies making up the bulk of the "associables".

The non-insistence on reverse preferences has the added advantage that it gives the ACP countries a freer hand in choosing the instruments of their own policies with the Community and with other countries, provided they observed the principle of non-discrimination between member states of the Community and between the Community and third countries. This free-hand policy is further reinforced by a subsection of article 7 ; thus on the question of access to markets, the EEC does not insist on the application of the m.f.n. clause to them in respect of trade or economic relations between ACP states or between one or more ACP States and other developing countries. This was an admission by the EEC of the right of the ACP countries to forge bilateral or regional co-operation both among themselves and with other developing countries.

Other essential provisions of the section on trade co-operation cover machineries for mutual information and consultation especially in connexion with possible changes in the commercial policies of individual partners ; the application of safeguard measures and trade promotion. The Protocol on rules of origin is of major importance with regard to the provisions on access to Community markets and

1) Article XXIV of the General Agreement allows a derogation from the principle of non-discriminatory, most favoured nation clause, in cases of free trade customs and areas unions covering a substantial part of the mutual trade of the partners concerned.

2) See page 245 above Myrdal's statement in this regard.

on this the Community made two major concessions, one of which was designed to facilitate co-operation both among the ACP States themselves and between ACP States and other developing countries. In the first place the Community agreed to consider the ACP countries as a single customs area ; this has an optimum effect in regard to successive processings or partial manufactures in different ACP countries. Secondly, it is prepared to consider requests for temporary derogations required for purposes of industrial development in the countries concerned. The section on trade is supplemented by Special Protocols on sugar, meat rum and bananas.

Stabilization of export earnings

The scheme for the stabilization of the export earnings from certain primary products¹ of the ACP countries represents a major innovation in the trade relations between the EEC and developing countries ; for nothing of its kind was covered in the First and Second Yaoundé Conventions. The aim of " Stabex " as the scheme has come to be called is " to provide a remedy for the adverse effects of unstable export receipts and thus help the ACP countries to secure economic stability, profitability and steady growth ".

The " Stabex " is significant as the first major attempt by a group of developed countries directly to stabilize commodity export earnings of a group of developing countries and appears to reflect the growing international cooperation between the producers and consumers of primary commodities. The compensatory financing scheme of the IMF which has existed since 1963 is the only arrangement which comes near to it ; but it is substantially different² from the " Stabex " in its modalities, as already outlined above.

Industrial cooperation

This section of the Lome Convention is considered one of the major breakthroughs in the attempt to forge a new economic relationship between developed and developing countries, reflected in the desire of the latter to play a bigger role in industrial production and trade in manufactured goods. The initiative for the incorporation of this section in the Convention was taken mainly by the ACP countries themselves. The novelty of this section lies in the fact that unlike

1) The system was to be applicable in the first instance to 12 basic products (or groups of products) i.e. products made from groundnuts ; cocoa ; coffee ; cotton ; coconut ; palm, palm nuts and kernels ; raw hides and skins and leather ; wood products ; fresh bananas ; tea, raw sisals and iron ore. It has also been provided that after 12 months, other products upon which the economies of one or more ACP states depend to a considerable extent may be included if they are affected by sharp fluctuations.

2) The Stabex scheme differs from the IMF Compensatory Finance Facility in that instead of covering the total of exports to all destinations it is limited to certain products and, for most of the benefitting countries, related only to their exports to the EEC. While the IMF facility is strictly in the form of a loan, the benefits under the Stabex are for many of the beneficiaries non-repayable.

the first Yaoundé Convention and other sections of the second Convention which adopted a rather general approach to development and cooperation using commercial and financial instruments, coupled with technical assistance, training schemes and similar instruments, it aims at the development of a whole specific sector in the economy of ACP countries.

Specifically the broad objectives of this section include bringing about a better distribution of industry both within these countries and between them, establishing new industrial relations between the partners and their commercial operators, improving the transfer of technology and the adaptation of such technology to the specific conditions and needs of the ACP States, promoting the marketing of the ACPs' industrial products, encouraging the participation in the industrial development of the ACP States of both nationals of the ACP States and of Community firms. In order to attain these objectives, the Community is to help to set up programmes and projects regarding infrastructure, industrial undertakings, training, technology and research, as well as on industrial information trade promotion and co-operation.

Financial and technical cooperation

The basic objective of this section of the Convention is to correct structural imbalances in the various sectors of the economies of the ACP countries and thus contribute to their economic and social development. The basic features are that the financial and technical co-operation would be built around a financial aid programme to be channeled, as in the Yaoundé Convention, through the European Development Fund and the European Investment Bank. The financing of the aid would be done through a wide choice of methods ranging from straight forward subsidy or non-repayable grant to normal loans at markets rates ; they include loans on special terms, subscription of risk capital and loans with interest rate subsidies. Like under the Yaoundé Convention, a large part of the aid (80 per cent) takes the form of non-repayable grants.

With regard to the nature of the aid programme or projects, the new convention maintains the sectoral priorities of the preceding conventions. This implies emphasis on economic and social infrastructure projects, rural development and training schemes ; it implies direct action in favour of industrialization, marketing and sales promotion, and it implies emergency aid to ACP countries facing serious difficulties as the result of natural catastrophies or comparable events.

In the long-run these provisions of the Convention together with those on industrial co-operation, if effectively implemented might prove to be more relevant to the ACP countries than free access to markets, in view of their more direct import on development effort.

The Lomé Convention - Some general criticisms

The shortcomings of and loopholes in the Lomé Convention "*per se*", a few of which have been pointed out in the analysis above can only be brought to light with implementation. However, some of the criticisms which used to be levelled against the Yaounde Convention have been made against it, especially with regard to its effects on third-party developing countries. The most serious is that it discriminates in favour of one group of developing countries against others; a discrimination which covers not only tariffs but also direct and indirect development aid (STABEX). There is hardly a valid reason except on political grounds for the exclusion of certain Commonwealth countries such as Sri Lanka nor of many other developing countries with standards of development similar to those of many of the ACP countries. It must however be said in favour of the Lomé Convention, that it covers over a third of the developing world including most of the least developed and almost all developing countries of Africa south of the Sahara¹. The result of the discrimination has meant the loss of a preferential market for certain Commonwealth countries (e.g. India, Bangladesh, Sri Lanka, Singapore) and a reduced developmental assistance for other developing countries. The discrimination in matters of tariffs has however been partly compensated for as a result of the institution of the GSP and tariff concessions within the GATT.

The Lomé Convention has not only been discriminatory; it is also divisive, pitching, as it were, one group of developing countries anxious to defend their preferential margins and privileges against others trying to acquire similar advantages or eliminate them. This has been preventing more effective joint action by developing countries in the North-South dialogue and trade negotiations, as well as co-operation in many areas of international action. It might also have tied up the hands of the EEC in its general desire to liberalize trade with most developing countries. For example it might be claimed that in its desire to protect some of the Lomé preferential margins, the EEC could not go as far as it could in making concessions to other developing countries during the Tokyo round of multilateral trade negotiations.

On purely political grounds the Lomé Convention has been criticised as a neo-colonialist attempt by Western Europe to consolidate and widen its sphere of influence especially in Africa; in fact it has been claimed that Africa is the only remaining region which Western Europe could consider as its zone of influence. In the same vein the "Lomé" type relationship might help to perpetuate the complex of dependence which most of the ACP countries might have inherited from the colonial period.

1) At the time of going to press the former Portuguese colonies of Angola and Mozambique have made approaches for accession to the Lomé Convention while Guinea Bissau and Sao Tome and Principe have already acceded.

GHANA AND THE LOME CONVENTION

Some attention has been devoted to a discussion of the main economic provisions of the Lomé Convention because of the potential importance of the convention to Ghana, it being the first time that she had entered into such a relationship with a group of developed countries. As has already been pointed out, the Lomé Convention is not a simple commercial arrangement, it establishes a complex system of economic and trade relations, the effects of which in part can only be of a long-term nature. However as an instrument of commercial policy its relevance to Ghana is more apparent. Let us consider the main provisions in this context. The provisions of the section on trade cooperation implies for Ghana that the special preferential market for her exports has grown from the British market of 55 million inhabitants¹ to that of 250 million. This puts her on the same footing with her main competitors like Ivory Coast, Cameroon, Gabon, who have hitherto enjoyed a preferential access to the Common Market. On the other hand these countries which had hitherto faced tariff barriers on the British market can now compete with Ghana on equal footing on it. (See Table 2). While this preferential margin might not be substantial with regards to raw primary products, for example 4 per cent for cocoa beans, it assumed some importance with regard to the processed products ; 12 per cent for cocoa butter, and 15 per cent for cocoa paste and 16 per cent for unsweetened cocoa. It must however be pointed out that these preferential concessions at best offer more opportunities for trade expansion and cannot automatically lead to increased trade if not backed by greater production efforts. Secondly, as the series of multilateral tariff negotiations in the GATT and the GSP have demonstrated, these special preferential margins are likely to be gradually whittled away in the course of time.

Moreover while tariff concessions have been secured for Ghana's exports they are still liable to general consumption taxes such as the value added tax which is applied in all the Community countries and selective taxes in a number of them some of which may be as high as over 100 per cent. Apart from the elimination of quantitative restrictions in trade the arrangement does not contain any definite action on the host of other non-tariff barriers such as phyto-sanitary regulations, standards, packing regulations and others which are assuming greater importance as tariff barriers are dismantled. While the tariff concessions obtained by Ghana are very substantial, their overall importance will be limited as long she remains mainly an exporter of industrial and agricultural raw materials ; it is in this sense that these concessions must be viewed in conjunction with the provisions on industrial co-operation which aim specifically at aiding the development of the industrial sectors of the ACP countries. It will be some time before Ghana can fully take advantage of the vast

¹) This does not take into consideration the preferential access to the markets of the old Commonwealth Dominions.

EEC market for their nascent manufacturing industries. In the meantime Ghana can avail herself of the technical assistance provisions to promote the exports of her textile products, semi-processed and processed agricultural products, wood products and handicrafts to the Common Market. It must be emphasized in concluding a discussion of the market access provisions of the Lomé Convention, that the absence of reverse preferences leaves Ghana, like the other ACP countries, a free hand in pursuing commercial policy relations with non-Community countries in accordance with her wider international interests.

On the basis of the present structure of her exports only two major products of Ghana, cocoa products and wood products are covered by the STABEX, but these account for about 80 per cent of her total export earnings. As has already been pointed out in Chapter VI, there is a substantial year to year fluctuation in the earnings from cocoa exports due either to price fluctuations or fluctuations in productions. The extent to which Ghana stands to benefit from the scheme appears rather limited. In the first place the total amount devoted to the scheme is rather modest in view of the number of countries and products covered and according to the terms of the scheme preferential consideration is to be given to the least developed countries. Moreover as Ghana is not counted among the least developed of the ACP States, any facility offered her will be in the form of loans repayable in favourable export years.

With regard to the industrial co-operation provisions of the new Convention it is the hope of Ghana and other ACP countries that they will form the basis for a real effective co-operation by which the EEC, could through technical assistance and the encouragement of investment and the transfer of technology and managerial know-how, aid in the general industrial development of their economies. In the final analysis however this will depend upon the extent to which the ACP countries adopt the right attitudes and domestic policies and measures aimed at attracting foreign investment.

In concluding this section on the Lomé Convention it may be convenient to add that it has added a new dimension to the framework of Ghana's multilateral commercial diplomacy in regard not only to the Community but also to the other ACP countries. One of the indirect institutional outcome of the successful negotiations of the convention was the desire of the ACP countries to develop the solidarity which has grown among them into a framework for developing greater economic co-operation among themselves. An ACP grouping has been set up quite apart from the formal institutions created by the convention itself, "in order to ensure the realization of the objectives of the Convention of Lomé to contribute to the

development of trade¹, economic and cultural relations amongst the ACP States and Developing countries in general, to contribute to the promotion of effective regional and inter-regional co-operation amongst the ACP countries and amongst developing countries in general and to promote the establishment of a new world economic order". Its main organs are a Council of Ministers and a Committee of Ambassadors; these bodies are assisted by a Secretariat. In the same sense it can be advanced that the momentum of solidarity created by the Lomé Convention served as a catalytic force to the diplomatic efforts which resulted in the creation of the Economic Community of West African States already analysed in chapter eight.

Conclusions

In this chapter attempt has been made to examine and analyse the implications for Ghana commercial policy of the complex of international institutions, some of global others of regional or sub-regional nature, which have come to characterize the postwar international economic relations. This phenomenon, which is bound to grow as international economic relations become more and more complicated and inter-dependent, raises two main issues with regard to Ghana's commercial policies. These institutions constitute instruments which a country such as Ghana can utilize to serve her national policies, assuming that such policies are well and clearly defined. It is therefore incumbent upon her not only to see that the objectives set by these institutions are consistently pursued but also to play an active role in their formulation, maintenance and evolution according to changing circumstances. This leads one to the other issue; that the membership of any of these institutions constitutes an encroachment on the sovereignty of a member state and it is therefore within Ghana's own national interest not only to see to it that her freedom of action is not too much circumscribed, but also that her gains from them are commensurate with the encroachments on her sovereignty.

Ghana has pursued an active policy of international involvement since her independence and while in some cases such involvement has been justified to a large extent, in other cases such justification can only be a long-term objective, while in others it might be considered to have been counter to her national interests. The question may also be posed whether in some cases such involvement has not been an excuse for the country's failure or inability to take the appropriate internal policies or actions. The abortive attempt in 1964 by the Cocoa Producers Alliance to influence cocoa price and the ineffective International Cocoa Agreement of 1972 are cases in point.

1) One of the concrete decisions taken at the first meeting (5-6 June 1975) of the Council of Ministers held after the signature of the Lomé Convention was to mandate the Committee of Ambassadors, assisted by the Secretariat to look into the possibility of drafting and implementing special programmes for achieving closer co-operation between ACP states in the fields of trade, industry, transport, communications and the mobilization of trained manpower. A sub-committee of the Committee of Ambassadors was to be set up to examine urgently the possibilities of promoting intra-ACP trade in beef and veal.

Chapter XI

CONCLUSIONS

In this chapter attempt has been made to examine and analyse what Cohen² has proposed as the three principal models of commercial policy orientation ; firstly that of a small country pursuing a rather defensive policy, secondly an intermediate range nation which seeks to preserve its national security through a policy of compromise agreements and international solidarity ; and thirdly the large state with a proclivity for a rather aggressive policy in pursuit of its ambitions of hegemony. In reality no nation falls neatly into any one of the three models there is an infinite variety or combinations of these models. The main objective of this thesis has been to attempt to interpret Ghana's commercial policy not around a central hypothesis but rather in the form of a synthesis which tries to underscore the multiplicity of issues, problems and choices which a newly independent developing country has had to face in its external trade relations.

Ghana's commercial policy had most of the features associated with the first model outlined above, with some overlapping features of the second model. Considered a model colony by virtue of its relatively high standard of living and a high level of social and administrative development, Ghana acceded to independence with an economy which had the appearance of prosperity but in reality rather fragile. The continent of Africa was still largely colonial but new political forces were in ferment, while the world around was witnessing strong undercurrents of change which the formation of the European Economic Community was its best manifestation. The fundamental factors which shaped and influenced Ghana's commercial policy were not only economic, but also political both domestic and international.

Economic factors

The basic economic factor was the under-developed nature of the economy ; the low per capita GNP, an agricultural food sector which had many of the characteristics of a subsistence production, and an export economy wholly dependent on the export of primary agricultural and mineral products and dominated by one major commodity, cocoa. Being at the very infant stage of industrialization, the country's domestic capacity to satisfy its demand for manufactured consumption goods was negligible and to satisfy its need in intermediate and capital goods non-existent. In such a situation the primary objective of commercial policy, which in essence forms an integral part of the general economic policy, would be to help in maximizing the national product and welfare. In practical terms it would mean maximizing that part of the national income arising from the country's trading relations. The diversification of agricultural export production ; conservation of the country's foreign exchange earnings through a sound import substitution industrialization, promotion of export oriented industries ; stabilization of the world's prices for the country's export commodities, were obvious policy objectives, and added to these were others such as improving the country's commodity terms of trade by increasing the added value of exports through processing, and the diversification of the country's external markets.

The balance of payment problems

The problem of the foreign exchange bottleneck discussed throughout this study was one manifestation of a balance of payment deficit problem which with its appearance in the fifties has come to reflect the basic weakness of the economy with growing pressure of demand for consumption and capital goods on a deficient domestic production and a relatively stagnant export sector. The result has been an accumulation of external debt, a general slowdown in production in the import dependent sectors, and a contribution to the inflationary spiral, of which the deficient agricultural food and raw material sectors were however the main culprits.

Traditional instruments of commercial policy

In the face of the structural weaknesses in the economy attempts to apply some of the classical instruments of commercial policy to the solution of the country's balance of payments problem have been largely futile. Moreover most of the measures were not well designed and had an ad-hoc air about them. Customs duties could not be raised to the appropriate levels where they could effectively restrict imports, one of its early declared objectives, since this would reduce their efficacy as a major source of government revenue. Neither was their protective functions elaborated in such a way as to enable them give the desired effective protection to the appropriate industries with the result that while some industries were over protected, others received negative effective protection. The programme of quantitative import

controls was administratively cumbersome, fraught with various forms of abuses and had for most of the time a rather disruptive effect on the economy. With the application simultaneously of various measures of import control, custom duties, surcharges, purchase taxes, quantitative restrictions, import deposit schemes, exchange controls, changes in exchange rates, it has been difficult to evaluate in any creditable way their efficacy. The persistence of the balance of payment problem however points to the existence of a fundamental disequilibrium in the economy and therefore the need to tackle the problem at that level.

The political factor - foreign policies

The singular political event of the period for Ghana was her accession to political independence from Great Britain. Political independence gave the country a new awareness of the imperative of mobilizing her resources for the task of economic and social development which was considered a necessity for consolidating and safeguarding her independence. On the other hand it was clear form the pronouncements of the country's leadership that this task was to be intertwined with an ambitious external role incommensurate with the country's economic strength. On her accession to independence Ghana's political leaders refused to consider the event in isolation from the general political situation in Africa where colonialism was still the order of the day. Nkrumah declared Ghana a spearhead in the struggle for the "emancipation" of the rest of the continent and for its eventual unification. It was inevitable that economic factors were to be brought into play, for as has already been discussed in the first chapter, the economic power of a nation forms an essential ingredient of her national power which in turn reinforces her action in the field of foreign policy. It was therefore no coincidence that Ghana's period of active role on the international scene was the period when she could boast of a healthy foreign exchange reserve and that her decline on the same scene was to begin with the appearance of a serious balance of payment deficit problem. It must also be stressed that while Nkrumah preached unification some aspects of his policies such as his opposition to regional economic groupings in Africa and to the association of some African countries to the EEC proved to be divisive rather than unifying.

Another political factor in the external sphere was Ghana's precipitated development of diplomatic and economic relations with a number of countries with centrally planned economies, a move which was justified partly by reasons of political neutrality on the one hand and of market expansion and diversification on the other. This sudden change in the direction of trade, however, had a long term dislocating effect on the country's trade. A more gradual change would have given the country time to evaluate and progressively adapt her mechanisms of trade.

Internal political factors

It was however in the domestic sphere that political factors were to have an even greater influence on commercial policies. The principal factor here was the progressive encroachment of the state on the economic life to a point where it dominated many essential sectors. While it can be argued that there is practically no economic system in which the state does not play a role of some sort, it is a question of degree; for where such a role becomes pervasive and dominant it is bound to dampen individual initiatives, and enterprise and vitiate competition and efficiency, two essential prerequisites of success even in a mixed economy of the type being espoused in Ghana. A basic problem here is thus, the definition of the role of the state and the modalities of its co-existence with the private sector. Where state monopolies engage in commercial operations they should be submitted not only to criteria aimed at optimizing the utilization of national resources but also the norms of international commercial behaviour.

Another political factor which needs being emphasized has been the effect of the general political climate of Ghana over the past two decades on business life in general. In the first place the attempt by the Nkrumah government to introduce an ill-defined socialist ideology, the quick development of relations with the centrally planned economy countries and a fiercely nationalistic foreign policy resulted in the alienation of the country's traditional economic partners. In the second place the constant changes in governments did produce a general climate of insecurity and instability not conducive to the generation of confidence in both the domestic and foreign business communities. For example each of the four successive governments since independence has produced its own investment code which while showing a large degree of continuity has contained enough changes to cause constant concern to investors and traders, although some of these changes were necessary to adapt investment to the country's evolving economic situation.

Ghana and multilateral commercial diplomacy

Ghana achieved her independence in a world still undergoing the postwar reorganization of its international economic relations. Multilateralism and regionalism have come to characterize the postwar international economic relations and Ghana was soon involved in an intricate network of organizations, the World Bank and its affiliates, the IMF, the FAO, and the GATT not to speak of the United Nations itself and its various bodies. The achievement of "economic independence" has been an early declared policy of Ghana and many newly independent countries; however it was soon to be realized that this was a hollow policy in an economically interdependent world and that a surrender of part of national sovereignty was necessary for the pursuit of national interests and for a greater national security and international solidarity. The first years of

euphoria, after membership, were to be followed by illusion as Ghana, like most other developing countries, realized that despite the important functions being performed by some of the specialized agencies, they could only play a supplementary role in the solution of their problems and that the essential policies and measures had to be taken by the countries themselves. .

As has already been emphasized, international action however effective cannot be a substitute for sound national policies and actions. There are, however, problems arising out of the growing international economic interdependence which can only effectively be tackled in concerted international action. Examples of such problems are the liberalization of international trade, the reform of the international trade, and the international monetary systems, the place of transnational companies in national and international economic systems, and other problems relating to shipping and the elaboration of the law of the sea covering among many other issues the delimitation of zones of national economic sovereignty, and the exploitation of the high ocean bed. Ghana like many other developing countries has to find a way individually or severally of playing an active role in finding appropriate solutions to these problems while safeguarding her national interests. This is a challenge she will have to face increasingly as the degree of her involvement in the complexity of the world economic system grows.

Appendix I

LONG-TERM TRADE AND PAYMENTS AGREEMENT BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF (...)

The Government of the Republic of Ghana and the Government of the People's Republic of (...) noting with satisfaction the existence of considerable goodwill for the expansion of trade between their two countries,

desiring to enhance this goodwill by means of co-operation on the basis of equality and mutual advantage and to promote the exchange of goods between the two countries,

have agreed on the following :

Article I

In order to promote and facilitate trade the Contracting Parties shall grant each other the most-favoured-nation treatment in respect of the following :

- 1) Customs duty and all other duties and taxes applicable to the exportation, importation or transit of commodities;
- 2) Customs prescriptions and formalities as well as dues and charges in relation to importation, exportation, transit, storage and transshipment of commodities when exported, imported or in transit ;
- 3) Issuance of import and import and export licence and the formalities thereof.

The provisions of this Article shall not, however, apply to :

1) Goods imported from the People's Republic of (...) but originating in other countries which do not enjoy the most-favoured-nation treatment in the Republic of Ghana or to goods imported from the Republic of Ghana but originating in other countries which do not enjoy the most-favoured-nation treatment in the People's Republic of (...);

2) Advantages accorded by either Contracting Party to contiguous countries for the purpose of facilitating frontier traffic ;

3) Advantages resulting from customs union to which either Contracting Party may be or become a party.

Article 2

The two Contracting Parties shall, within the scope of the laws and regulations of their respective countries, facilitate the widest exchange of their products enumerated in list " A " and " B " attached to the present Agreement with a view to promoting the development of trade between the two countries.

Article 3

The provisions of Article 2 shall not affect the rights of Ghanaian physical persons, juridical persons and State Trading Organizations on the one hand, and (...) Foreign Trade Organizations on the other, to conclude between themselves, subject to import, export and exchange control rules in force in both countries, commercial transactions for the import or export of goods not included in lists " A " and " B ".

Article 4

Import and export of goods under this Agreement shall be carried out in accordance with the import, export and exchange control laws and rules in force in the Republic of Ghana and the People's Republic of (...) and on the basis of contracts to be concluded between physical and juridical persons including State Trading Organizations of Ghana on the one side and State Trading Organizations of the People's Republic of (...) on the other.

Article 5

The competent authorities of both parties shall offer all facilities for the conclusions of import and export contracts between Ghanaian physical and juridical persons including State Trading Organizations and (...) Foreign Trade Organizations.

Such contracts shall, inter alia, contain provisions for arbitration for the settlement of disputes arising from the execution of the contracts.

Article 6

The Contracting Parties shall assist each other as regards their participation in Trade Fairs held in each of the countries and in organizing exhibitions of one of the countries on the territory of the other on terms to be agreed between the competent bodies of both countries.

Articles intended for Fairs and Exhibitions and also samples of goods, provided they are not to be sold, shall be exempted from customs duties and other port levies in accordance with the relevant legislations of both countries.

Article 7

Goods imported under the present agreement shall be used exclusively in the importer country without the right of re-export. In individual cases, however, these goods may be re-exported by one of the Contracting Parties with the prior written consent of the other Contracting Party.

Article 8

A Joint Commission consisting of representatives of both Contracting Parties shall be established. The Commission shall meet once a year alternately in Accra and (...) - The main task of such meetings shall be to supervise the implementation of the present Agreement, to promote the realization of the mutual object of balanced trade between the two countries; to prepare recommendations where necessary to one or both Contracting Parties for the further improvement of trade relations between the two countries and to suggest amendments to the lists attached to the Agreement.

The Commission shall also meet the request of either Contracting Party as soon as possible to discuss and solve specific problems arising from the implementation of the Agreement.

Article 9

The Government of the Republic of Ghana and the Government of the People's Republic of (...) agree to give priority consideration to the ships of the two countries to undertake the transportation of goods to be exchanged within the framework of the present Agreement.

Article 10

The Contracting Parties shall make every effort to ensure that the prices of goods supplied under the present Agreement are fixed on the basis of prevailing world market prices.

Article 11

The Contracting Parties shall maintain equilibrium between the total value of imports and exports which shall be taken as a principle of trade between the two countries.

Article 12

In order to carry out payments between the Republic of Ghana and the People's Republic of (...), the Bank of Ghana on behalf of the Government of the Republic of Ghana and the People's Bank of (...) on behalf of the Government of the People's Republic of (...), shall establish with each other non-interest bearing and free of charge clearing accounts in Ghana Cedi.

The Commercial and non-commercial payments enumerated hereunder between the physical and juridical persons residing within the territories of the Republic of Ghana and of the People's Republic of (...) may be effected through the above-mentioned clearing accounts :

- 1) the value of goods exchanged between the two countries ;
- 2) all expenses in connection with the traffic of goods between the two countries such as freight, insurance and other incidental expenses ;
- 3) expenses incurred by the embassies and consulates residing in each other's territory ;
- 4) expenses incurred by the governmental, commercial, cultural and social delegations residing in each other's territory ;
- 5) payments for transit transactions of both countries ;
- 6) other payments as agreed upon between the Bank of Ghana and the People's Bank of (...).

Article 13

In case of any change in the gold parity of the Ghana Cedi the balance of the Account referred to in Article 12 shall be adjusted proportionally to this change on the date of the change.

The credit line referred to in this Agreement shall be similarly adjusted. The amounts of unrealized contracts, invoices payments documents, payments orders and the value of all other transactions falling within the framework of this Agreement shall also be adjusted in the same manner.

Article 14

All values in the contracts, invoices, payment documents and payment orders relating to the trade between the Republic of Ghana and the People's Republic of (...) shall be expressed in Ghana Cedi. If they are expressed in any other convertible currencies, the values shall be converted into Ghana Cedis at rates quoted officially in Ghana for the respective said currencies on the date of payment.

Article 15

For the effective carrying out of the stipulations of the present Agreement, the Bank of Ghana and the People's Bank of (...) shall establish technical arrangement for payments between them.

Article 16

To facilitate payments between the two sides, both banks shall grant to each other interest-free credit line, the amount of which will be fixed in the yearly Trade Protocol.

In case the debit balance at the end of each month on the accounts mentioned in Article 12 of this Agreement exceeds the amount of the interest-free credit line as fixed in the yearly Trade Protocol, the debtor shall, at the demand of the creditor settle the amount in excess in a convertible currency agreed upon by both parties.

Article 17

Settlement of the accounts shall be made by both banks at the expiry of this Agreement. The balance, if any, shall be settled by the debtor party within six months in goods or in convertible currency to be agreed upon both Parties.

Article 18

The present Agreement shall come into force on the date of exchange of Instrument of Ratification and Notification confirming that it has gone through the legal procedures of the Contracting Parties.

The Agreement shall be valid for three years from the date on which it comes into force. It shall, thereafter, be extended for further periods on the basis of exchange of notes between the two governments to be done three months before the expiry of this Agreement.

LIST " A "

Commodities to Be Exported
from the Republic of Ghana

1. Cocoa Beans
2. Cocoa products
3. Timber (Logs & sawn)
4. Veneer & plywood
5. Coffee
6. Palm kernel
7. Coconut oil
8. Groundnut oil
9. Glycerine
10. Aluminium ingots
11. Hides and skins
12. Diamonds
13. Manganese ore
14. Tobacco leaves
15. Handicrafts
16. Others

LIST " B "

Commodities to Be Exported
from the People's Republic of
(...)

1. Textiles and garments
2. General merchandise
3. Rice, tea and foodstuffs
4. Stationery
5. Handicrafts
6. Chemical products
7. Metal and steel products
8. Building materials
9. Machinery, agricultural machinery and tools
10. Others

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